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Before the

UNITED STATES POSTAL RATE COMMISSION

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OFFICE OF THE SECRETARY

In the Matter of: **POSTAL RATE AND FEE CHANGE**

Docket No. **R2000-1**

VOLUME 44

DATE: **Tuesday, August 29, 2000**

PLACE: **Washington, D.C.**

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BEFORE THE
POSTAL RATE COMMISSION

- - - - -X
In the Matter of: :
POSTAL RATE AND FEE CHANGE : Docket No. R2000-1
- - - - -X

Third Floor Hearing Room
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C 20268

Volume XLIV
Tuesday, August 29, 2000

The above-entitled matter came on for hearing,
pursuant to notice, at 9:30 a.m.

BEFORE:

- HON. EDWARD J. GLEIMAN, CHAIRMAN
- HON. GEORGE A. OMAS, VICE CHAIRMAN
- HON. W.H. "TREY" LeBLANC, COMMISSIONER
- HON. DANA B. "DANNY" COVINGTON, COMMISSIONER

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P R O C E E D I N G S

[9:35 a.m.]

CHAIRMAN GLEIMAN: Good morning. We continue hearings in Docket R2000-1 for the purpose of considering the Postal Service's Request for Changes in Rates and Fees.

I have several procedural matters before we begin today. There are two pending motions concerning the appearance of our first witness this morning. The United States Postal Service filed a motion to allow a late request for oral cross-examination of Witness Bentley's testimony on behalf of KeySpan, and I will grant that motion.

The Postal Service also filed a motion to strike portions of the testimony of Witness Bentley submitted on behalf of the Major Mailers Association, and I will deny that motion.

The Postal Service contends that Mr. Bentley has incorporated new material and arguments into his supplemental testimony. It contends that Order 1294 provided that supplemental testimony of participants other than the Postal Service should be limited to updating 1998 data with 1999 data.

In response, Major Mailers points out that, consistent with Order Number 1294, in addition to utilizing Fiscal Year 1999 data, the Postal Service has updated its case to reflect events that have occurred since it filed its

1 initial request.

2 MMA contends that due process requires that it be
3 allowed to reflect known events in its supplemental
4 testimony, and I agree. My reading of Order 1294 is that it
5 did not prohibit participants other than the Postal Service
6 from updating their presentations to reflect known recent
7 events. Several participants have properly incorporated the
8 cost impact of Postal processing changes into supplemental
9 testimony, thus, I will admit MMA-ST-1 as filed.

10 [MMA-ST-1 was received into
11 evidence]

12 CHAIRMAN GLEIMAN: If there is anyone who wishes
13 to discuss this matter at this point, I will let them talk
14 for a minute or two, and I do not intend to issue a formal
15 written ruling unless someone insists that I do so.

16 [No response.]

17 CHAIRMAN GLEIMAN: One other matter bears
18 mentioning at this point. Yesterday we discussed beginning
19 Thursday's hearing at 8:30 a.m. instead of 9:30. We got
20 some positive feedback from folks who were around yesterday,
21 including the Postal Service, which has the first couple of
22 witnesses scheduled for that day.

23 I see a number of difference faces in the hearing
24 room today, and if there is a problem with the schedule
25 change, please let me know by the mid-morning break if

1 possible, and certainly when we return from lunch, so that
2 we can finalize our schedule for Thursday morning, which
3 appears to be shaping up as an extraordinarily long day.

4 We had not planned to have hearings on Friday, the
5 1st, but it appears that we may rollover into Friday, the
6 1st, unless we start early and move things along rather
7 quickly.

8 Does any participant have a matter that they would
9 like to address today? Mr. Baker.

10 MR. BAKER: Mr. Chairman, on August 22nd,
11 Newspaper Association of America filed a motion to compel a
12 response to NAA/USPS-12. Yesterday I was served with the
13 response -- or opposition by the Postal Service to that
14 motion. We have reviewed that motion and we find it largely
15 is responsive to what we asked and, therefore, we will
16 withdraw our motion as moot. Thank you.

17 CHAIRMAN GLEIMAN: We thank you.

18 Mr. Hall.

19 MR. HALL: Yes. I know we have the first witness
20 for MMA and KeySpan, but I want to advise you, and I have
21 already advised Postal Service counsel, that we have today
22 filed revised supplemental testimony for Mr. Bentley on
23 behalf of Major Mailers and have a minor revision for the
24 KeySpan testimony. This is based upon Library References
25 that the Postal Service filed just yesterday.

1 We worked diligently to make changes to Mr.
2 Bentley's testimony to reflect the latest information
3 available from the Postal Service. We have agreed that
4 counsel for the Postal Service will have his folks review
5 the testimony with a view towards minimizing cross-
6 examination. So we would expect that that process would
7 take no longer than the morning, and perhaps Mr. Bentley
8 could be allowed to go as the first complete witness after
9 lunch.

10 CHAIRMAN GLEIMAN: Mr. Tidwell, any comments?

11 MR. TIDWELL: No.

12 CHAIRMAN GLEIMAN: I just want to make sure I
13 understand. I was aware that the MMA testimony had been
14 revised and that there had been some discussions about
15 giving the Postal Service an opportunity to review the
16 revisions during the course of the morning and determine
17 whether indeed they felt there was a need to cross-examine
18 and to reschedule the MMA testimony for later in the day.

19 I was not aware that there had been changes also
20 in the KeySpan testimony. Do I understand correctly that
21 there are changes in KeySpan?

22 MR. HALL: I think it is one minor change.

23 CHAIRMAN GLEIMAN: Mr. Tidwell, do you feel
24 comfortable putting off the MMA testimony until later and
25 proceeding with KeySpan, or would you propose -- you know,

1 the imposition is on the Postal Service at this point, and I
2 will go along with the Postal Service's wishes in terms of
3 whether you want to move both pieces till later on in the
4 day.

5 MR. TIDWELL: The Postal Service prefers Option B,
6 we would like to give our First Class and the other analyst
7 an opportunity to take a look at both pieces of testimony
8 and make a judgment.

9 CHAIRMAN GLEIMAN: Just let me make an editorial
10 comment, I always view all the Postal Service analysts as
11 being First Class, but we will move both pieces of the
12 testimony to later in the day.

13 I cannot promise you, Mr. Hall, that we will do it
14 right after lunch, because it is conceivable that we may
15 break for lunch to give someone time to prepare for redirect
16 and make the best use of time today. Consequently, we will
17 do it as soon after lunch as is reasonable, so long as the
18 Postal Service is comfortable at that point that they have
19 had an opportunity to review. If not, you will wind up
20 later in the day.

21 MR. HALL: Fine.

22 CHAIRMAN GLEIMAN: Okay. Thank you.

23 That being the case, we have eight witnesses
24 scheduled for today to present 10 pieces of testimony. We
25 already know about Witness Bentley, who had two of those

1 pieces of testimony. The other witnesses are Haldi,
2 Bradpiece, Giuliano, Wilson, Prescott, Crowder and Bozzo.
3 Witness Haldi also has two pieces of testimony to offer on
4 behalf of different participants in the case.

5 And if I can find my scorecard, now having moved
6 Mr. Bentley downstream, we will see if we can't come up with
7 the next witness in line, and to the best of my ability to
8 determine, I think -- thank you. That helps a lot, Dr.
9 Haldi. Our next witness is your witness, Mr. Olson. If you
10 could call him to the stand, I would appreciate it.

11 MR. OLSON: Mr. Chairman, William Olson
12 representing Val-Pak Direct Marketing Systems, Val-Pak
13 Dealers Association and Carol Wright Promotions, Inc., and
14 we call to the stand Dr. John Haldi.
15 Whereupon,

16 JOHN HALDI,
17 a witness, having been recalled for examination and, having
18 been previously duly sworn, was examined and testified
19 further as follows:

20 DIRECT EXAMINATION

21 BY MR. OLSON:

22 Q Dr. Haldi, I would like to hand to you two copies
23 of what is entitled "The Rebuttal Testimony of Dr. John
24 Haldi Concerning Standard A Enhanced Carrier Route Mail on
25 Behalf Val-Pak, Val-Pak Dealers Association and Carol

1 Wright," designated as VP/CW-RT-1, and ask you if you
2 prepared that testimony or it was prepared under your
3 direction, and whether you adopt it as your testimony in
4 this docket?

5 A The answer to all your questions, counselor, is
6 yes, I did prepare it, and I do adopt it. I have one very
7 minor typographical change, that is on page 9, line 5. The
8 word "not" should be changed to "nor." So it reads,
9 "Neither Witness Clifton, nor Witness Tye."

10 MR. OLSON: Mr. Chairman, with that, we would move
11 the adoption of this testimony into evidence.

12 CHAIRMAN GLEIMAN: Is there an objection?

13 [No response.]

14 CHAIRMAN GLEIMAN: Hearing none, I will direct
15 counsel to provide two copies of the rebuttal testimony of
16 Dr. Haldi to the court reporter. The testimony will be
17 transcribed into the record and entered into evidence.

18 [Rebuttal Testimony of John Haldi,
19 VP/CW-RT-1, was received into
20 evidence and transcribed into the
21 record.]

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VP/CW-RT-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000)

Docket No. R2000-1

Rebuttal Testimony of

DR. JOHN HALDI

Concerning

STANDARD A ENHANCED CARRIER ROUTE MAIL

on Behalf of

VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND
CAROL WRIGHT PROMOTIONS, INC.

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August 14, 2000

VP/CW-RT-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000)

Docket No. R2000-1

Rebuttal Testimony of

DR. JOHN HALDI

Concerning

STANDARD A ENHANCED CARRIER ROUTE MAIL

on Behalf of

VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND
CAROL WRIGHT PROMOTIONS, INC.

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August 14, 2000

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1

AUTOBIOGRAPHICAL SKETCH

2

For a copy of my autobiographical sketch, see VP/CW-T-1 in this

3

docket.

4

PURPOSE OF TESTIMONY

5

The purpose of this testimony is to rebut certain testimony of

6

(i) Newspaper Association of America ("NAA") witness William B. Tye as it

7

pertains to the coverage and rate level for Standard A ECR Mail, and

8

(ii) American Bankers Association and National Association of Presort

9

Mailers ("ABA/NAPM") witness James A. Clifton, insofar as it relates to

10

rates for Standard A Mail.

11

I. INTRODUCTION

12

Standard A ECR Mail is the focus of the direct testimony of witness

13

Tye, NAA-T-1. Tr. 30/14687-14770. In addition to changes in rate

14

design that he proposes for Standard A ECR, he would also have the

15

Commission increase the coverage and rate level for ECR Mail.

16

A decrease in rates for First-Class workshared mail is proposed in

17

the direct testimony of witness Clifton, ABA/NAPM-T-1. Tr. 26/12393-

18

12476. Witness Clifton proposes that all or some of his proposed

1 reduction in rates for workshared First-Class Mail be funded by
2 increasing the coverage on Standard A Commercial Mail.

3 The positions of witnesses Tye and Clifton are elaborated on in the
4 sections that follow. Both witnesses are seen to have ignored a number
5 of critical reasons why the coverage on Standard A ECR Mail, rather than
6 being increased, should instead be decreased, as is explained in more
7 detail below.

8 **II. WITNESS CLIFTON PREFERS TO SOLVE HIS**
9 **DILEMMA BY INCREASING RATES**
10 **FOR STANDARD A MAIL**

11 Witness Clifton's principal concern is to have the Commission
12 reduce the rate for First-Class workshared mail. His various proposals
13 reduce revenue From First-Class, and he needs some way to offset the
14 revenue loss, which presents something of a dilemma. His main
15 complaint appears to be that the cost coverages and unit contributions
16 accorded to First-Class single-piece mail are too low in comparison to
17 those of First-Class workshared mail. He states, for example:

18 [w]hile First Class workshared mail is supposed to be part of
19 a single First Class letters subclass, it does appear
20 unmistakably that in the growing disparate trends between
21 cost coverages for single piece versus cost shared mail in the
22 allocation of institutional costs, workshared mail is being
23 singled out in an arbitrary and almost punitive way. This is
24 unfair, inequitable, and discriminatory treatment toward the
25 mailers whose substantial investments and ongoing

1 dedication now move 45 billion pieces of First Class Mail
2 through automated processing technology annually.
3 [Tr. 26/12460.]

4 Having said that, however, he stops short of a concrete proposal to
5 shift any part of the institutional burden from First-Class workshared
6 mail to First-Class single-piece mail. Instead, he trains his fire on
7 Standard A Mail.

8 My proposals in total would reduce test year revenue by
9 \$605 million, **and can be financed by a \$232 million**
10 **increase from Standard A revenues**, which also entails a
11 \$373 million reduction in USPS costs. [Tr. 26/12457,
12 emphasis added.]

13 In considering possible offsets to his \$605 million revenue deficit,
14 the primary option witness Clifton offers is to increase rates for Standard
15 A Commercial Mail, with a reduction in the Postal Service's contingency
16 allowance as a secondary option. He expresses no concern with where,
17 from within Standard A Commercial Mail, the additional revenue is
18 derived. His recommendation makes no effort, for example, to
19 distinguish the differences between Standard A ECR and Standard A
20 Regular Mail with respect to cost coverage and unit institutional
21 contribution.

22 The arguments of witness Clifton, insofar as they refer to Standard
23 A ECR Mail, are flawed. For reasons explained below, his arguments do

1 not support any increase in revenue from Standard A Mail, especially
2 ECR Mail.

3 **III. WITNESS TYE HAS A MYOPIC FOCUS ON**
4 **INCREASING COVERAGE AND RATES**
5 **FOR STANDARD A ECR MAIL**

6 One of witness Tye's chief concerns is with increasing the coverage
7 and rates for Standard A ECR. He expresses almost no concern with
8 rates for Standard A Regular Mail, but only with those for ECR. In this
9 respect, his position differs slightly from that of witness Clifton, who
10 appears indifferent as to the Standard A subclass from which additional
11 revenues might be derived.

12 The net effect of witness Tye's proposal, of course, would be to
13 increase the Postal Service's net revenues, as would witness Clifton's
14 proposal for all Standard A Mail. Unlike witness Clifton, however,
15 witness Tye makes no proposal whatsoever regarding how the
16 Commission should apply any increase in net revenue that would result
17 from the changes he advocates. That is, he neither proposes which other
18 subclass(es) should benefit, nor sponsors any specific discount (or any
19 other proposal) within any other subclass that is designed to use any of
20 the additional net revenue that he proposes to generate. Obviously, a
21 key objective of witness Tye is merely to drive up ECR rates.

1 Among the arguments used in an effort to justify his position,
2 witness Tye compares the unit contribution of Standard A ECR with that
3 of First-Class Mail, and he complains that the former is too low. Tr.
4 30/14730-14732. In this respect, his argument has general similarity
5 with that of witness Clifton, and it is addressed in Section V, *infra*.

6 Witness Tye offers a number of additional arguments for increasing
7 the coverage on Standard A ECR, which can be summarized as follows:

- 8 ● **Ignorance:** USPS witness Mayes did not know
9 that she was proposing a [slight] decline in the
10 coverage of ECR mail. Tr. 30/14215-7.
- 11 ● **Rate design anomalies and distortions:** A
12 general increase in rates is a good way to cure
13 rate design anomalies. Tr. 30/14717-21.
- 14 ● **Compartmentalization [and circularity]:**
15 USPS witness Mayes blames USPS witness
16 Moeller, who in turn blames USPS witness
17 Mayes. Tr. 30/14721-3.
- 18 ● **Subjectivity:** USPS witness Mayes had no
19 objective reason to do what she did.
20 Tr. 30/14723-5.
- 21 ● **Forecasting flaws:** The method used by the
22 Postal Service and the Commission to project
23 after-rates volumes from before-rates volumes
24 can produce anomalous results and
25 overestimate net revenues. Tr. 30/14725-30.

26 These flawed arguments, which do not justify the solution
27 proposed by witness Tye, will be addressed in subsequent sections.

1 **IV. THE ARGUMENTS OF WITNESSES CLIFTON AND TYE**
2 **IGNORE KEY DIFFERENCES BETWEEN**
3 **FIRST-CLASS AND STANDARD A MAIL**

4 Witness Clifton's direct testimony states that:

5 [a]s a percentage of the total costs for a postal service,
6 delivery costs have the lowest degree of attribution of the
7 four major services in FY 1999 nearly 49% were
8 institutional. Because cost coverages are...determined by a
9 single mark-up over the attributable costs of all services,
10 First Class Mail has been shouldering **an extremely**
11 **unfair share** of institutional delivery costs for several years,
12 while Standard A mail **has unfairly benefited** from this cost
13 coverage convention.... This gaping issue has been around
14 for a long time. It was raised by NAA witness Sharon Chown
15 in R97-1, and also in R90-1. [Tr. 26/12460-12462,
16 emphasis added.]

17 This argument obviously goes to the non-cost fairness and equity
18 criterion contained in § 3622(b)(1) of the Postal Reorganization Act. A
19 comparison between the respective unit contributions by First-Class Mail
20 and Standard A Mail, as suggested by witness Clifton in the above
21 quotation, may appear straightforward. In my opinion, however, it is
22 overly simplistic and it clearly ignores a number of critical issues that
23 need to be considered, as the following sections explain.

24 **A. Standard A Mail Has a Decidedly Lower**
25 **Service Standard Than First-Class Mail**

26 The service standards for First-Class and Standard A Mail are
27 contained in the Postal Service's response to the Commission's Rule
28 54(n). First-Class Mail is generally considered to be "urgent" matter, and

1 the delivery standard for First-Class Mail ranges from overnight to 3
2 days, depending upon distance. First-Class Mail is transported by air
3 whenever the distance to be traveled warrants. First-Class Mail has
4 access to the collection system, and it receives free forwarding or return
5 service.

6 Standard A Commercial Mail consists largely of advertising matter.
7 It is considered to be non-urgent, and uses surface transportation almost
8 exclusively. Standard A Mail has a delivery standard that ranges between
9 2-10 days, depending upon the distance that the mail needs to travel.
10 Neither witness Clifton nor witness Tye mentions this difference, even
11 though it reflects value of service, one of the criteria in § 3622(b).

12 **B. Actual Performance for Standard A Mail, Although**
13 **Unmeasured, Is Far Less Reliable Than First-Class Mail**

14 All Standard A Mail is subject to deferral at each stage of
15 processing and delivery. Standard A Mail that is entered upstream of
16 any destinating facility runs a risk of being deferred, perhaps for an
17 extensive period, and most especially if it is used to level Postal Service
18 workloads during busy periods. Unfortunately, no systematic
19 performance data of any kind are available for Standard A Mail, despite
20 the fact that on several occasions the Postal Service has expressed its
21 intentions to initiate an end-to-end measurement system for Standard

1 A.¹ Consequently, no data are available for the percentage of time that
2 Standard A Mail is delivered within the standard shown in the response
3 to Rule 54(n).

4 Also, for Standard A Mail that fails to make the delivery standard
5 set forth in the Postal Service Rule 54(n) statement, no data are available
6 for the number of days by which the standard is missed. Although
7 Standard A Mail not delivered within the period specified in the Rule
8 54(n) statement is usually late, it can be and sometimes is delivered
9 ahead of the day specified. Although such "outstanding" performance
10 apparently occurs rarely, its principal effect is only to increase the
11 variation and uncertainty for those endeavoring to plan based on the
12 estimated time of the mail's arrival.

13 On the basis of reports received from Standard A mailers over the
14 years, it would appear that the amount of time required to deliver
15 Standard A Mail can be and is subject to a wide range of uncertainty.²
16 Moreover, the further upstream in the postal network that mail is

¹ The availability of independently measured and regularly reported end-to-end performance data for First-Class Mail ("EXFC"), coupled with the fact that no performance data of any kind is available for Standard A Mail, enhances the value of service of First-Class Mail relative to Standard A Mail.

² For Standard A Mail that must travel long distances, between 15 and 20 days to delivery is not unheard of.

1 entered, the less certain is the time when final delivery will occur.³
2 Under the existing six days per week delivery system, mailers can neither
3 predict with any accuracy when their mail **will arrive**, nor do they have
4 any assurance that it **will not arrive** on some specified day. In their
5 comparison of coverages, neither witness Clifton nor witness Tye
6 discusses the poor and uncertain performance received by Standard A
7 Mail, and the low value of service in comparison to First-Class Mail.

8 **C. Standard A Mail Needs Day-Certain Delivery Far**
9 **More Than Irregular Six-Days-a-Week Delivery**

10 The knowledge that (i) delivery of Standard A Mail in accordance
11 with the Rule 54(n) statement can range from 2 to 10 days, and (ii) actual
12 delivery is routinely subject to much wider variation and
13 unpredictability, should help one to understand why Standard A Mail
14 would benefit far more from an alternate delivery system that offered
15 non-daily, but day-certain delivery than it does from a postal system that
16 provides highly unpredictable delivery 6 days a week. Direct mail
17 advertising campaigns are planned well in advance. Often, a direct mail
18 campaign is timed to coincide with other sales promotions, such as
19 advertising on television or radio. When this occurs, delivery on a
20 specified day, or within a narrow window, becomes increasingly

³ By itself, consideration of this extensive uncertainty markedly reduces the value of service, thereby offsetting the fairness and equity argument.

1 important. Because of the long lead time involved in direct mail
2 advertising campaigns, mailers could readily accommodate to an
3 alternate postal system that provided day-certain delivery on only 3 or 2
4 days per week – or perhaps even only 1 day per week.

5 The arguments of witnesses Clifton and Tye both appear to make
6 the implicit assumption that Standard A Mail requires delivery 6 days a
7 week. To the extent that this is their view, I disagree. Such delivery
8 requirements apply to First-Class Mail and Periodical Mail with high
9 frequency of publication (*e.g.*, daily newspapers most especially, as well
10 as semi-weekly or weekly publications), not Standard A Mail. As
11 explained below, this is an extremely important factor to keep in mind
12 when comparing the contribution of Standard A Commercial Mail with
13 that paid by First-Class Mail.

14 **D. The Substantial Contribution to the Postal Service's**
15 **Institutional Cost by Standard A Commercial Mail**
16 **Reduces the Costs for Other Subclasses**

17 Witness Clifton acknowledges that the contribution to the Postal
18 Service's institutional cost by Standard A Commercial Mail exceeded
19 volume variable costs by \$5,035 and \$4,576 million in FY 1998 and FY
20 1999, respectively (Table 13). Tr. 26/12461. However, witnesses Clifton
21 and Tye, each for their own reason, assert that the contribution from
22 Standard A Commercial Mail should be still higher.

1 Given the magnitude of the contribution to institutional cost, a few
2 things seem clear. First, revenues from Standard A Commercial Mail
3 exceed incremental cost by a substantial margin, hence Standard A Mail
4 is clearly not the recipient of any cross-subsidy.⁴ Second, without
5 Standard A Commercial Mail, other subclasses would have to bear more
6 costs and pay a higher rate than they do now. In FY 1998, for example,
7 excluding the volume of Standard A Commercial Mail (69.4 billion
8 pieces), the remaining volume of domestic mail amounted to 127.6 billion
9 pieces (all other subclasses combined). Had those other pieces been
10 required to pay the \$5.035 billion that Standard A Commercial
11 contributed to institutional costs in FY 1998, an additional revenue of
12 3.9 cents per piece would have been required. But that is not the end of
13 the story.

14 **E. A Separate Delivery System for Standard A Mail**
15 **Could Have a Lower Stand-alone Cost**

16 Of all Standard A Commercial Mail, the portion most subject to
17 competition at the present time is saturation ECR. The major source of
18 competition is from newspaper inserts. These can be of any weight.
19 Based on casual observation, however, they usually are not too heavy;

⁴ Witness Clifton minimizes the role of the incremental cost test, stating that “[i]n my own view, the Postal Service’s development of an elaborate incremental cost test for cross-subsidization has been in part a chimera designed to take the focus off this specific issue [the contribution to institutional cost].” Tr. 26/12462.

1 e.g., some inserts are one or two sheets, such as coupons, and most of
2 the newspaper inserts which I see would appear to weigh less than 3
3 ounces. The volume of newspaper inserts grew from 56.0 billion in 1990
4 to 82.0 billion in 1997, which is considerably greater than the volume of
5 ECR mail, and somewhat greater than the combined volume of all
6 Standard A Commercial Mail.⁵ Newspaper inserts, of course, are the
7 special concern of witness Tye.

8 Alternate delivery companies also compete with ECR.⁶ Although
9 alternate delivery of hard-copy advertising materials is small compared to
10 the volume of newspaper inserts or Standard A Commercial Mail, it does
11 exist. Alternate delivery companies generally provide each address in the
12 area which they cover with delivery service only a limited number of days
13 per week.

14 Any critique that would compare the appropriate contribution of
15 Standard A Commercial Mail with that of First-Class Mail should

⁵ NAA Institutional response to VP-CW/NAA-T1-11, and the web site referenced therein. Tr. __/__. During the years 1990-1997 the newspaper insert business has handily survived competition from Standard A ECR (formerly third-class carrier route presort), as evidenced by the 46 percent growth in volume between 1990-1997. According to that response, data for 1998 and 1999 are expected to be posted on the web site some time during September, 2000.

⁶ See testimony of John White, AAPS-T-1, Harry J. Buckel, SMC-T-1, and Roger Merriman, SMC-T-2; Tr. 22/9935-62, 22/9903-17, and 32/15656-69, respectively.

1 consider the stand-alone cost of a separate alternate delivery system
2 designed to handle primarily (or even exclusively) Standard A Mail.
3 Neither witness Clifton nor witness Tye does so, however. Any such
4 alternate delivery system would reduce delivery costs sharply by
5 providing service only 1, 2, or possibly 3 days per week. Because any
6 such alternate delivery system would focus on advertising mail, it likely
7 would attempt to convert the seeming "weakness" of limited delivery days
8 into a strength by offering day-certain delivery.

9 Contemplation of such an extensive alternate delivery network may
10 at this time represent a hypothetical situation for the United States, but
11 it nevertheless is an important consideration when comparing the
12 fairness and equity of the coverage of Standard A Commercial Mail
13 versus that of First-Class Mail.⁷ The economics of this situation have
14 been explored in a pioneering article by Bernard Roy of La Poste.⁸ In that
15 article he demonstrates that under certain conditions the stand-alone
16 cost of such an alternate delivery system for advertising mail would

⁷ Sweden has completely repealed its monopoly statutes, and the firm of City Mail has for several years competed with Sweden Post to deliver advertising mail. At present, City Mail reportedly provides delivery two days per week in Sweden's three largest cities. Relaxation of the monopoly statutes in other European countries could result in further competition of this sort.

⁸ "Technico-Economic Analysis of the Costs of Outside Work in Postal Delivery," in *Emerging Competition in Postal and Delivery Services*, ed. by Michael A. Crew and Paul R. Kleindorfer. Boston: Kluwer Academic Publishers, 1999.

1 enable the operator to charge rates less than those charged by the
2 incumbent postal administration for delivery six days a week. Broadly,
3 these conditions are as follows:

- 4 ● **Feasibility:** the volume of advertising mail
5 must be sufficient to support an alternate
6 delivery network.
- 7 ● **Coverage:** the coverage of delivery stops by
8 non-advertising mail on carrier routes is
9 substantially below 100 percent.
- 10 ● **Rates:** the rates for advertising mail are based
11 on sharing the cost of daily delivery.

12 Under the conditions described above, diversion of advertising mail
13 to an alternate delivery system would substantially reduce coverage of
14 delivery stops on routes receiving daily delivery of urgent mail, thereby
15 driving up cost (while reducing revenues), and thereby revealing the
16 extent to which advertising mail has helped reduce the cost for daily
17 delivery of urgent mail. Roy points out that if the stand-alone cost of the
18 alternative delivery operator is less than the amount charged by the
19 incumbent postal administration, then under such circumstances
20 **advertising mail can be seen as being in the position of cross-**
21 **subsidizing some of the cost of daily delivery for urgent (i.e., First-**
22 **Class) mail**, which is totally contrary to the assertions of witnesses
23 Clifton and Tye.

1 The higher the share of advertising mail, the more likely it is that
2 without such mail stop coverage will be reduced on routes that receive
3 daily delivery.⁹ Since Standard A Commercial Mail constituted about 35
4 percent of total domestic U. S. mail volume in 1999, it likely has a
5 significant impact on coverage. Were free competition to be allowed, the
6 Postal Service would be highly vulnerable to "cherry-picking" by new
7 entrants, who would charge a lower rate equal to their stand-alone cost.
8 Is this a possibility? The data in Table 1, below, help put the Postal
9 Service's current situation in perspective.

10 As shown in column 1 of Table 1, in FY 1999 the Postal Service's
11 total delivery costs (city and rural carriers combined) amounted to some
12 \$16.5 billion. Of this amount, slightly over \$2.8 billion represented
13 volume variable costs charged to Standard A Commercial Mail. In
14 addition, Standard A Commercial Mail contributed \$4.6 billion to the
15 Postal Service's institutional cost.

⁹ See the article by Roy, footnote 7, *supra*, for a more complete and technical discussion of the conditions.

1

2

Table 1

3

Volume Variable Delivery Costs
FY 1999, millions

4

5

(1)

(2)

6

Standard A
Commercial

7

All Mail

8

City Carriers, cost segments 6 & 7	\$ 12,639	\$ 2,089
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9

Rural Carriers, cost segment 10	<u>3,892</u>	<u>746</u>
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10

Total	\$ <u>16,531</u>	\$ <u>2,835</u>
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11

One-sixth	\$ 2,755	
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12

13

Source: Exhibit USPS-ST-44M.

14

15

How much would it cost to operate an alternate nationwide

16

delivery network to every business and residence in the country 1 or 2

17

days per week? As shown in the bottom row of Table 1, one-sixth of

18

\$16.5 billion amounts to some \$2.755 billion.¹⁰ Thus, the amount for 1

19

day per week universal delivery is just slightly less than the volume

20

variable cost charged to Standard A Commercial Mail for delivery. For

¹⁰ Note that this is one-sixth of the Postal Service's total cost for city and rural carriers; *i.e.*, it assumes that an alternate delivery company would pay the same wage rate (including benefits) as the Postal Service and provide service as universal as that provided by the Postal Service. Further, carrier costs shown in Table 1 include some amount for unfunded pension liability that is also included in the \$2.755 billion.

1 universal delivery 2 days per week, one-third of the total cost amounts to
2 about \$5.5 billion. Although this amounts to somewhat more than the
3 volume variable delivery cost charged to Standard A Commercial Mail, it
4 is almost \$2 billion less than \$7.4 billion, the sum of volume variable
5 delivery cost (\$2.8 billion) plus contribution to overhead (\$4.6 billion).
6 Although by no means definitive, these numbers would suggest that the
7 revenues from Standard A Commercial Mail are already more than
8 sufficient to support a universal stand-alone alternate delivery system.¹¹

9 The testimonies of witnesses Clifton and Tye fail to address the
10 possibility that daily delivery of First-Class mail may be cross-subsidized
11 by Standard A Commercial Mail, especially Standard A ECR Mail.
12 Neither the testimony of witness Clifton nor that of witness Tye gives any
13 consideration to the various factors, discussed above, which indicate that
14 Standard A Commercial Mail would be better off with day-certain delivery
15 of, say, 2 days per week. Nor do they consider the stand-alone cost of
16 such an alternate delivery system. If Standard A Mail is cross-
17 subsidizing daily delivery by virtue of paying rates higher than those
18 necessary to support a stand-alone system, the consequence is that the

¹¹ If an alternate delivery system were to provide less than universal service — *i.e.*, cherry-pick the areas to be served — the cost of 2-day per week delivery would likely be substantially less.

1 rates for Standard A ECR Mail should be reduced, not increased,
2 contrary to the assertions of witnesses Clifton and Tye.

3 Increasing the coverage and rates for Standard A ECR Mail
4 increases the potential profitability for would-be entrants to the hard-
5 copy delivery business. Successful establishment of alternate delivery
6 could have the effect of diverting large volumes of advertising mail (and
7 potentially, Periodicals as well) from the Postal Service and (i) driving up
8 rates for First-Class Mail, contrary to the result desired by witness
9 Clifton, and (ii) reducing the rates for independent delivery of advertising
10 mail, thereby intensifying the competition for newspaper inserts,
11 contrary to the result desired by witness Tye. As the familiar saying
12 goes, people should be careful about what they ask for, because they just
13 might get it.

14 **V. WITNESSES CLIFTON AND TYE FAIL TO**
15 **DISTINGUISH PROPERLY BETWEEN**
16 **STANDARD A ECR AND REGULAR**
17 **WITH RESPECT TO COVERAGE**

18 Witnesses Clifton and Tye both raise the same issue: if a highly
19 workshared subclass has a coverage near the systemwide average, then
20 its unit contribution could be less than that of subclasses which use the
21 postal network more extensively. Witness Clifton (Tr. 26/12461) focuses

1 on the non-attributed (institutional) portion of delivery cost and offers
2 comparisons between:

- 3 ● All First-Class Mail and Commercial Standard A;
- 4 ● First-Class workshared mail and Commercial Standard A;
5 and
- 6 ● First-Class workshared mail and First-Class single-piece
7 mail.

8 And in a similar vein, witness Tye states:

9 It is important to consider unit contributions. First, they
10 highlight the actual contribution being made by the average
11 piece. **This can facilitate comparison among similar**
12 **subclasses.** Second, unlike cost coverage percentages, unit
13 contributions are not distorted by the differing degrees of
14 worksharing among the various subclasses. [Tr. 30/14732,
15 emphasis added.]

16 **A. Comparisons Between the Two Standard A Subclasses**

17 The unit contributions of Standard A ECR and Standard A Regular
18 are compared in my direct testimony on Standard A ECR Mail.¹² As
19 pointed out there, the unit contribution of ECR persistently exceeds that
20 of Standard A Regular. The Postal Service spends almost twice as much
21 for a piece of Standard A Regular Mail as it does for a piece of ECR mail,
22 but it earns a lower unit contribution. Thus, any comparison between
23 the two subclasses of Standard A, such as that advocated in witness

¹² See VP/CW-T-1, pp. 38-53, Tr. 32/15792-15807.

1 Tye's testimony, would support a reduction in the unit contribution of
2 ECR and directly undercuts witness Tye's position.

3 Since a key purpose of witness Tye's testimony is to increase rates
4 for Standard A ECR, he strives to avoid any such comparison. When
5 asked repeatedly how he defined "similar subclasses," or whether he
6 considered Standard A Regular and Standard A ECR to be similar
7 subclasses, he declined to provide a responsive answer. Tr. 30/14844-
8 45, 14859-60, 14889-91, and 14970-90. However, witness Tye does
9 agree that "[i]f the applicable avoided costs from worksharing are
10 correctly calculated and if passthroughs are set to 100 percent, and all
11 else is equal, then the unit contributions would be equal." Tr. 30/14863.
12 That is, the unit contribution on Standard A ECR should be reduced, not
13 increased.

14 **B. Comparisons Between First-Class and Standard A Mail**

15 Witness Clifton compares the unit contribution to institutional cost
16 of First-Class and Standard A Mail as follows:

17 [t]he cost coverage for First Class workshared mail has
18 become highly discriminatory since 1994 relative to
19 Standard A commercial mail and First Class single piece
20 mail, and should be reduced. [Tr. 26/12458, underlining
21 and capitalization omitted.]

22 Witness Clifton (i) compares coverages of different subclasses with
23 virtually no reference to the non-cost criteria in § 3622(b), which underlie

1 all cost coverages, and (ii) ignores the fact that Standard A mail may
2 already be in the position of cross-subsidizing daily delivery of First-
3 Class Mail, as discussed above.

4 In addition, much of witness Clifton's core argument on behalf of
5 First-Class workshared mail is equally applicable to Standard A ECR
6 Mail because the cost coverage of Standard A ECR is among the highest
7 of any subclass. Yet, in proposing an across-the-board rate increase for
8 Standard A Commercial Mail, witness Clifton would impose a rate
9 increase on Standard A ECR, notwithstanding that the latter is in a
10 highly analogous situation to that which he describes for First-Class
11 workshared mail.¹³ In effect, witness Clifton proposes to remedy one
12 perceived inequity (affecting First-Class workshared mail), which he
13 roundly denounces, by exacerbating another, closely comparable,
14 inequity (pertaining to Standard A ECR mail).

15 Witness Tye, for his part, draws on the following old chestnut:

16 the by now generally accepted principle that heavily work-
17 shared subclasses will have high cost coverages precisely
18 because of the cost avoidance from worksharing. [NAA-T-1,
19 p. 3; see also pp. 24, 40-42, 51].

20 Like witness Clifton, witness Tye would also (i) compare coverages
21 of different subclasses with virtually no reference to the non-cost criteria

¹³ The excessively high coverage of ECR is discussed in detail in my testimony, VP/CW-T-1, 38-47. Tr. 32/15792-15801.

1 in § 3622(b), and (ii) ignore the fact that Standard A commercial mail,
2 and most especially the ECR subclass, may already be in the position of
3 cross-subsidizing daily delivery of First-Class Mail, as discussed above.

4 **VI. WITNESS TYE'S CONCERN ABOUT A REVENUE SHORTFALL**
5 **ARISING FROM THE BEFORE AND AFTER RATES**
6 **VOLUME FORECASTING METHOD RAISES AN**
7 **OLD ISSUE, PROVIDING NO BASIS**
8 **FOR IMPROVEMENT**

9 Witness Tye asserts that the Postal Service has overstated Test
10 Year ECR revenues. He explains that this occurs because the Postal
11 Service ignored likely shifts in the billing determinants in the Test Year
12 due to changes in rate design. Tr. 30/14726. In particular, he discusses
13 the fact that rates for some categories of Standard A ECR Mail increase
14 while others decline. According to witness Tye, the after-rates volumes
15 are derived from a two-step process used by both the Postal Service and
16 the Commission that:

17 results in perverse upward-sloping demand curves for some
18 rate groups. Basic economic principles state that as prices
19 (rates) increase, quantity (volume) should decrease. This is
20 not always the case in Postal Service predictions.... Such
21 results indicate that the volume forecasting model is not
22 fully compatible with the rate proposal. [Tr. 30/14728-29.]

23 Witness Tye proposes no solution for the issue that he identifies —
24 *i.e.*, developing a more accurate forecast of after rates volumes for each
25 rate category (or rate cell). His observations and comments are not new.

1 In Docket No. R97-1, virtually the identical issue was raised in
2 conjunction with Priority Mail, along with a proposed solution.

3 The Commission rejected the solution proposed for Priority Mail, in
4 part because the “method does not exactly reproduce the aggregate
5 volume forecasts that the Commission derives from witness Musgrave’s
6 econometric model and forecasting methodology.”¹⁴ The Commission
7 went on to add that more research on the issue is needed, and it invited
8 “the Postal Service and other parties to conduct empirical studies and to
9 suggest improvements to the two-step process” relied upon by the
10 Commission.

11 Witness Tye apparently has not conducted any empirical research
12 on the issue that he identifies. He does state that:

13 [w]itness Moeller’s method of using “before rates” billing
14 determinants to calculate the percentage rate increase is to
15 *overestimate* the actual percentage rate increase in rates that
16 will be realized by the rate proposals, as it does not account
17 for the shift in volumes in response to relative price changes.
18 This is an example of a well-known problem in index
19 numbers. [Tr. 30/14730, emphasis in original, footnote
20 omitted.]

21 Since witness Tye identifies the situation as an example of a well-
22 known problem, it presumably has a well-known solution. It is therefore
23 regrettable that witness Tye does not indicate how that solution might be

¹⁴ See Docket No. R97-1, *Op. & Rec. Dec.*, App. H, pp. 7-10.

1 employed to improve the forecasting methodology relied upon by the
2 Commission. It may well be possible to improve the existing forecasting
3 methodology. In the absence of such constructive input, however,
4 witness Tye's criticisms are to little avail. For now, the Postal Service's
5 revenue projections must be relied upon.

6 **VII. WITNESS TYE'S CONCERNS ABOUT ANOMALIES**
7 **AND DISTORTIONS IN RATE DESIGN FOR**
8 **STANDARD A MAIL APPEAR DISINGENUOUS**

9 Witness Tye expresses concern about what he describes as
10 anomalies and distortions in the design of rates for Standard A Mail.
11 Tr. 30/14717-14721. For Standard A Regular Mail he provides details
12 on 10 passthrough categories, and states that:

13 [i]t is clear that the Regular Mail passthroughs are driven –
14 understandably – by the desire to have qualified letter mail
15 submitted at Regular automation rates rather than ECR
16 Basic rates. **This leads to passthroughs that vary**
17 **considerably from the optimal.** [Tr. 30/14719, emphasis
18 added.]

19 His concerns appear misplaced for a number of reasons. First, his
20 testimony does not carry through with his expressed concern for
21 developing optimal passthroughs. He presents a rather detailed critique
22 of the passthroughs in Standard A Regular (Tr. 30/14718), but makes no
23 proposal on how they should be improved. When asked why he did not
24 compare the Test Year contributions of Standard A Regular as proposed

1 by the Postal Service along with those of ECR and First-Class Mail
2 presented at page 41 of his testimony (Tr. 30/14731), witness Tye
3 responded “[o]ptimal rates for Standard A Regular mail are outside the
4 scope of my testimony.” Tr. 30/14860. Nor does he present a set of
5 rates for Standard A ECR mail that he considers optimal. Were he
6 seriously concerned about anomalies and distortions, he should have
7 submitted a proposal designed to improve matters.

8 Second, desired incentives for Standard A ECR, including the
9 desired relationship with the rate for Standard A Basic Automation
10 letters, are achieved both in the rate designs proposed by Postal Service
11 witness Moeller (USPS-T-34) and in my direct testimony (VP/CW-T-1¹⁵).

12 Third, since new rates were implemented on January 1, 1999, the
13 volume of ECR Basic non-automated letters has already declined
14 substantially, from 7.2 billion in FY 1998 to 5.6 billion in FY 1999, a
15 year-to-year reduction of some 22 percent.¹⁶

16 Fourth, the desire to have qualified letter mail submitted at
17 Regular automation rates rather than ECR Basic rates is not such an
18 overriding objective as to warrant changes in rate level as proposed by

¹⁵ Tr. 32/15808-10.

¹⁶ USPS-LR-I-125 and USPS-LR-I-259, respectively. Since the higher rates were only in effect for nine months of FY 1999, a comparison of the last nine months of each respective year may reflect a reduction of more than 22 percent.

1 witness Tye. In FY 1999 the contribution by Standard A ECR (in excess
2 of volume variable cost) exceeded that of Regular by some \$408 million,
3 despite the fact that the volume of Regular was some 19 percent greater,
4 and the total volume variable costs for Regular exceeded those of ECR by
5 150 percent. Standard A ECR is a far more profitable subclass than
6 Standard A Regular. Further, both at current rates and at proposed
7 rates, ECR Basic letter mail is highly profitable to the Postal Service. It
8 makes no sense to offer such a classification (which also happens to be
9 widely popular), and then inflate the rate out of all proportion to the cost,
10 in some misguided effort to eliminate it as a category.

1 CHAIRMAN GLEIMAN: Three parties have requested
2 oral cross-examination of the witness, the American Bankers
3 Association, jointly with the National Association of
4 Presort Mailers, the Association of Alternative Postal
5 Systems, and the Association for Postal Commerce.

6 Is there any other party that wishes to cross-
7 examine this witness today?

8 [No response.]

9 CHAIRMAN GLEIMAN: Mr. Hart, do you have cross
10 examination? If so, you may begin.

11 MR. HART: For the record, it's Henry Hart,
12 representing the National Association of Presort Mailers.

13 CROSS EXAMINATION

14 BY MR. HART:

15 Q Good morning, Dr. Haldi.

16 A Good morning, Mr. Hart.

17 Q Dr. Haldi, are you familiar with the Postal
18 Service's RPW Revenue, Pieces, and Weight System?

19 A I'm not an expert in the system, but I have
20 general familiarity with it, yes, sir.

21 Q Subject to check, would you agree with me that the
22 volumes of Standard A commercial regular, pre-bar-coded mail
23 have increased consistently over the past several years from
24 a little over \$21 billion in 1994; \$23 billion in '95; \$24.3
25 billion in '96; \$24.6 billion in '97; \$28.3 billion in '98;

1 and \$32.6 billion in '99?

2 A Well, I can't say I keep those numbers on the top
3 of my head, but subject to check, I will accept those, yes,
4 sir.

5 Q Thank you.

6 Are you also aware of the fact that there have
7 been rate increases for Standard A commercial regular, pre-
8 bar-coded mail implemented during those years, '94 and '97,
9 in particular?

10 A Could you repeat the question again? Standard A?

11 Q Do you agree that the rates for Standard A
12 commercial regular were increased in the '94 classification
13 -- rate proceeding, and in the '97 rate proceeding?

14 A Again, I don't memorize all these rate changes,
15 but I believe that's correct.

16 Q But the volumes have continued to grow,
17 notwithstanding those rate increases; is that correct?

18 A That's correct.

19 Q I'm sure you're familiar -- probably more than me
20 -- with the term, price elastic goods; are you not?

21 A Yes, I have some familiarity with that term.

22 Q And when the price increases for a price-elastic
23 good, the volume purchase goes down; does it not?

24 A Ceterus paribus, as the economists are wont to
25 say; yes, that's the generally the case.

1 But ceterus paribus means that there is no other
2 price increases anywhere; that's everything else constant,
3 so you're talking really about a relative price increase,
4 not an absolute price increase.

5 Q Understood.

6 But despite the rate increases for Standard A
7 commercial regular, pre-bar-coded mail over the 1990s, the
8 volumes have not gone down; have they?

9 MR. OLSON: Mr. Chairman, I'm hesitant to
10 interject, but at some point, I'd like to ask that this be
11 tied to the rebuttal testimony of the witness, which is the
12 subject of cross examination here today, and not other
13 issues.

14 I guess that's all I have to say.

15 MR. HART: I believe it will tie into the
16 suggestion of the witness that this Standard A commercial
17 mail will all run over to an alternative Postal delivery
18 system if the rates or the cost coverages switch. I think
19 it's very relevant to that.

20 CHAIRMAN GLEIMAN: Well, there wasn't an
21 objection, so I don't think there is a need for an answer,
22 and I think he can just move on with the cross examination.

23

24 MR. HART: Thank you.

25 BY MR. HART:

1 Q In fact, Standard A commercial regular mail is
2 price-inelastic; is it not?

3 A Do you mean in an absolute sense?

4 Q Yes.

5 A To the extent that price-inelastic means an
6 elasticity of less than one, that would be correct, yes.

7 Q Are you familiar with Library Reference I-179
8 filed in this proceeding, which is the GAO study projecting
9 electronic divergence of First Class Mail over the period
10 from FY 2000 to FY 2007?

11 A I have not read that Library Reference.
12 Unfortunately there is about, at this point, I believe,
13 about 475 Library References.

14 And it has just been beyond the time availability
15 to read all of them. I'm aware that it exists, and I'm
16 aware of the general nature of the projection therein, but I
17 have not read the study itself.

18 Q Okay, are you aware -- you're aware of its
19 existence; are you aware of the fact that under that study,
20 First Class Mail volumes dropped for single-piece, while
21 Standard A Mail volumes increase, even though electronic
22 divergence of advertising mail is built into the study?

23 A I was not aware of those details, no. I was
24 aware, generally, that they project a decline in First Class
25 Mail.

1 MR. HART: I have no further questions, thank you.

2

3 CHAIRMAN GLEIMAN: Mr. Straus on behalf of the
4 Association of Alternate Postal Systems.

5 MR. STRAUS: Thank you.

6

CROSS EXAMINATION

7

BY MR. STRAUS:

8 Q Dr. Haldi, while we're on Library References,
9 since you testify about the competition between alternate
10 delivery companies and ECR mail, did you happen to read
11 Library Reference 268, which is the SAI report that
12 discusses the competition between alternate delivery
13 companies and ECR mail?

14 A No, I did not.

15 Q Can you tell me why?

16 A Well, I wrote four pieces of direct testimony and
17 three pieces of rebuttal testimony, and that sort of limited
18 my time to review Library References in any detail.

19 Q This one was directly on point, though; wasn't it?

20 A I wouldn't know unless I read it. It's hard to
21 know what's on point until you read it.

22 Q Did you even know that there was a Library
23 Reference that addressed the specific subject of this
24 rebuttal testimony?

25 A I saw the motions practice to try and get it filed

1 as a Library Reference, in scanning all the mail that I get
2 in this case, and I was aware that you finally managed to
3 get it filed as a Library Reference.

4 Q Please look at page 12 of your testimony.

5 [Pause.]

6 Are you there?

7 A Yes, I'm there.

8 Q You say on line 3 that the volume of newspaper
9 inserts was 56 billion in 1990 and 82 billion in 1997. How
10 many newspapers does that represent as opposed to newspaper
11 inserts?

12 A I really don't know. I think it was in the data
13 that I looked at, but I didn't look for the number of
14 newspapers.

15 Q But you're comparing the 56 billion and the 82
16 billion to the volume of ECR mail.

17 When Advo mails a shared mail piece with eight
18 pieces, is that one piece of mail or eight pieces of mail?

19 A I think it's considered -- well, from the Postal
20 Service's point of view, it's one piece of mail.

21 Q So when you're comparing newspaper inserts to
22 pieces of mail, isn't that an apples and oranges comparison?

23 Don't you have to know the number of inserts in
24 the Advo pieces or the number of newspapers carrying the
25 inserts in order to have a valid apples to apples

1 comparison?

2 A That would be an interesting way to compare it.

3 Q Wouldn't it be a more relevant and more valid way
4 of comparing it?

5 A I don't know if it would be more relevant. It
6 would be perhaps of some relevance; that's for sure.

7 I mean, more relevance is kind of an absolute
8 scale of lining up these things and saying what's more
9 relevant.

10 Q Well, let's just assume that the number of pieces
11 within shared mail sets of all types, not just Advo's, is
12 increasing much more rapidly than the number of shared mail
13 pieces that you have counted as a piece.

14 If you're trying to compare the growth in
15 newspaper inserts to the growth in preprints in the mail,
16 wouldn't you have to know the number of preprints in the
17 mail, not the number of packages of preprints in the mail?

18 A It's possible that -- you know, when you say
19 inserts for preprints or shared mail, ValPak has envelopes
20 with lots of coupons in them, and I certainly wouldn't count
21 each coupon as an insert.

22 Q How would you count it? If a newspaper had eight
23 coupons in it, how would you count those for your 56 billion
24 and 82 billion?

25 A Well, sometimes you have multiple coupons in an

1 insert of a newspaper. I get those all the time in my
2 newspaper. I get like tiny little -- you know, several
3 pages folded together, and each page has a coupon on them.

4 Q Well, if your newspaper --

5 A That's one insert.

6 Q If your newspaper has, let's say, a K-Mart ad and
7 a local tire ad and a tree-trimming ad and a dentist ad, and
8 a chiropractor ad, all stuck inside of it, is that five
9 inserts?

10 A That would depend on how it's been put together.
11 If it's several pages folded over, I think the newspaper
12 would count that as one insert.

13 Q How did you count it?

14 A I just took the data that they supplied on their
15 website.

16 Q So you don't know how the number of inserts was
17 counted for newspapers?

18 A Only what they reported off their website.

19 Q And you didn't make any effort to count the number
20 of inserts in the mail?

21 A I have no way to count the number of inserts in
22 the mail.

23 Q You could ask some of the parties, couldn't you?
24 You could ask Advo how many pieces per set it averages.
25 That would give you at least a head start, wouldn't it?

1 A That would be one way to start, I suppose, yes.

2 Q On page 13 you hypothesize that an alternate
3 delivery system could reduce delivery costs sharply by
4 providing service only one, two, or three days a week. Have
5 you ever run an alternate delivery system?

6 A Have I ever run one?

7 Q Yes.

8 A No, I have not managed an alternate delivery
9 system.

10 Q Have you ever provided consulting services to an
11 alternate delivery system?

12 A No, I have not -- but if you have a potential
13 client I will be happy to meet them.

14 [Laughter.]

15 BY MR. STRAUS:

16 Q Are the per piece costs lower for one day a week
17 service or for six days a week service with six times as
18 many pieces to deliver?

19 A Excuse me, can you rephrase the -- restate the
20 question, not rephrase it, just rephrase it.

21 Q Are the per piece costs lower for one day a week
22 service or for six day a week service with six times as many
23 pieces to deliver?

24 A I would suspect you would have to specify more
25 information than that in order to provide a detailed answer.

1 Q Well, how do you know that an alternate delivery
2 system would be cheaper than some alternative method if it
3 only delivers one, two, or three days a week, without
4 knowing more information, such as the number of pieces they
5 are delivering?

6 A It depends in large part on the stop coverage on
7 the routes and if you deliver six days a week, you will have
8 six delivery routes. You'll have, by your hypothesis you'll
9 have six times as many mail, but you don't know what the
10 stop coverage is going to be, and if the mail is
11 agglomerated so you have lots of uncovered stops, then the
12 cost could be higher, but, you know, without more
13 specification you can't just make a flat-out statement one
14 way or the other.

15 Q I agree with that. I am concerned about the flat-
16 out statement that you make in your testimony about reducing
17 delivery costs by having deliveries fewer than six days a
18 week. I mean doesn't it depend upon the number of pieces
19 you have, the area you are covering and a number of other
20 variables?

21 A I tried to specify some of the variables on page
22 14 of my testimony. In particular, I referred to the
23 coverage of delivery stops.

24 Q Let's go to page 16 of your testimony.

25 A All right.

1 Q You say on lines 15 through 17 that you are trying
2 to figure out how much it would cost to operate an alternate
3 nationwide delivery network.

4 Can you tell me what costs you considered in
5 trying to build up an answer to that question?

6 A Here I focused on the delivery costs for all mail
7 and the share of those delivery costs that Standard A mail
8 is charged with or is attributed to Standard A mail. Now
9 that is of course the major cost of running a delivery
10 network for Standard A mail. That's not all the costs that
11 are charged to Standard A mail. To the extent that Standard
12 A mail comes in to the Postal Service upstream and less
13 presorted than, say, DDU saturation mail, all the costs of
14 transporting Standard A mail and all the costs of sorting
15 that mail down to the carrier route are also attributed to
16 Standard A mail, so those are other costs in the background,
17 and those costs, to the extent that you were to move
18 Standard A mail as a hypothetical into an alternate delivery
19 system, those costs and those revenues would also move over
20 and presumably an alternate delivery system could do it for
21 at least the same cost, as an implicit assumption I guess I
22 made here, as the Postal Service does for those other
23 activities.

24 Running a delivery system, an alternate delivery
25 system, entails more than paying carriers to deliver

1 material, doesn't it?

2 A Oh, yes. It entails supervisory costs and sorting
3 costs and those costs are all attributed right now,
4 attributed to and paid for by Standard A mail. They are a
5 share of those costs.

6 Q Do alternate delivery companies have sales costs,
7 advertising costs?

8 A I am not -- I have never seen any advertising by
9 alternate delivery companies, but I presume they must have
10 some kind of sales costs. How they market their services, I
11 am not sure.

12 Q Do you read, you know, the kinds of publications
13 in which they might advertise?

14 A I read DM News fairly regularly but I don't see
15 any ads by them in DM News.

16 Q Does the Free Newspaper Association have any kind
17 of a periodical or publication that they put out?

18 A Well, if they do I am not on their mailing list.

19 Q Does the Postal Service incur sales costs with
20 respect to Standard A mail that are attributed to Standard A
21 mail?

22 A None that I am aware of.

23 Q Tell me what you know, how deep your knowledge is,
24 on the administrative costs of setting up and running an
25 alternate delivery system and what percentage of those costs

1 are of the total operating costs?

2 A I have not consulted with an alternate delivery
3 company but I am aware they exist in this country. I am
4 also aware that there is one in Sweden that is competing
5 very effectively with Sweden Post.

6 Q Is it a national company or is it local?

7 A It is in the three major cities of Sweden right
8 now, and it is owned by Royal Mail of England, or at least
9 majority ownership is Royal Mail of England.

10 Q When you are talking about alternate delivery
11 companies in here, you are not speaking about United Parcel
12 Service and FedEx, are you? Aren't you talking about the
13 kinds of alternate delivery companies that are members of
14 AAPS?

15 A I am referring to alternate delivery companies
16 that would delivery hard copy advertising matter, yes. I
17 assume that is AAPS.

18 Q It is not, certainly not, it is not FedEx?

19 A No, and it is not UPS, no.

20 Q And are those --

21 A At least not to my knowledge they haven't engaged
22 in this business.

23 Q Do those, are those alternate delivery companies
24 about which you are testifying multi-city companies or are
25 they exclusively limited to one geographic area?

1 A Well, all I know is what I read in the testimony
2 here and Advo claims to have three alternate delivery
3 companies in three different parts of the country.

4 Q But are they operated as a single network such
5 that they are selling together or are they independently
6 operated, dealing with the local community?

7 A I don't believe it was specified whether they
8 operate separately or as an integrated group.

9 Q Well, what about the hundred members or so of
10 AAPS? Are they multi-city companies or one geographic area
11 companies?

12 A I couldn't tell you that.

13 Q You hypothesize here a universal, two day a week
14 delivery service; don't you?

15 A That's in my testimony, yes, that's correct.

16 Q If you were running an alternate delivery company
17 and had sufficient volumes, wouldn't you want to deliver
18 more than two days a week so that you could utilize your
19 personnel more efficiently?

20 A Not necessarily at all. Some alternate delivery
21 companies in Europe have built their whole practice on part-
22 time workers, housewives, students, and people like that who
23 don't want full-time employment, and who wouldn't be able to
24 provide full-time employment.

25 Q Well, I'm not suggesting that every employee is

1 full-time, but I'm suggesting that maybe a supervisor who is
2 salaried, you'd want him out there supervising five or six
3 days a week.

4 The president of the company, you'd want him
5 dealing with the deliveries; you'd want people who handle
6 complaints in the phone to be dealing more than two days a
7 week.

8 And wouldn't it make sense, all other things being
9 equal, as you said, to try to spread your overhead costs
10 such that you would be delivering on more than one or two
11 days?

12 A Well, to the extent that the labor force you're
13 trying to hire and retain wants full-time employment,
14 there's more than one way to skin a cat.

15 I mean, just a simple idea would be to deliver on
16 the east side of the town Mondays and Wednesdays, and on the
17 west side of town on Tuesdays and Thursdays or Tuesdays and
18 Fridays or something like that.

19 Q That's exactly my point, so that universal
20 delivery two days a week might not be what you'd actually
21 see. You might actually see a delivery more than two days a
22 week.

23 A Well, to any delivery point, they would experience
24 two-day-a-week delivery.

25 Q But your costs would be incurred more than two

1 days a week?

2 A The carrier force would cover twice as many routes
3 by delivery two days a week on the east side and two days a
4 week on the west side. Each carrier would have two routes
5 instead of one route.

6 Q Just let me go back. If I'm repeating a question,
7 I promise Mr. Olson that it's my last.

8 You don't know how much of an alternate delivery
9 company's costs are its carrier costs and how much are its
10 administrative and overhead costs; do you?

11 A I've not seen any data of that nature, not.

12 MR. STRAUS: Thank you; that's all I have.

13 CHAIRMAN GLEIMAN: The Association for Postal
14 Commerce?

15 [No response.]

16 CHAIRMAN GLEIMAN: It doesn't appear as if anyone
17 is here from the Association for Postal Commerce, so I guess
18 they have decided not to cross examine this witness.

19 Is there any followup?

20 Mr. Baker?

21 MR. BAKER: Mr. Chairman, I believe I had actually
22 filed a notice. But in any event, this will be brief.

23 CHAIRMAN GLEIMAN: Well, there's been a lot of
24 paper flying around, and I apologize if we overlooked yet
25 another piece. It wasn't the first and I suspect that it

1 won't be the last.

2 CROSS EXAMINATION

3 BY MR. BAKER:

4 Q Could you, Dr. Haldi, direct your attention to
5 page 11 of your testimony, lines 16 to 17?

6 [Pause.]

7 Do you have it?

8 A Yes, I see it there.

9 Q And you state that the major source of
10 competition, in your view, to saturation ECR mail is
11 newspaper inserts.

12 Do you believe that alternate delivery is not at
13 the present time a major source of competition to ECR mail?

14 A I don't have any data on the volume of mail
15 delivered by alternate delivery members of AAPS or any other
16 companies that aren't members of AAPS, but I would be,
17 frankly, quite surprised if it approached 84 billion pieces
18 a year.

19 Q And on page 12, line 9, you say that the alternate
20 delivery of hard copy advertising materials is small.
21 What's your basis for that statement?

22 A The same basis is that I just don't envision the
23 company -- if they were delivering anything approaching half
24 of 84 billion pieces of mail, I think they'd be more
25 noticeable than they are in the landscape.

1 Q Turning back to the statement on page 11 that I
2 focused you on before, you say the major source of
3 competition is from newspaper inserts.

4 To what are newspaper inserts competition, in your
5 testimony?

6 A Well, newspaper delivery -- newspapers -- most
7 daily newspapers, which I believe are the ones that
8 primarily carry inserts, are delivered independently of the
9 Postal Service.

10 They have their own delivery network, at least for
11 the newspaper itself.

12 Q Well, I'm trying to clarify your testimony. Are
13 you stating that newspapers compete with ECR mail or with
14 ECR mailers?

15 A They compete with the Postal Service to deliver
16 material that otherwise could be mailed.

17 In fact, my understanding is that sometimes
18 newspapers use the Postal Service to distribute in total
19 market coverage programs, those pieces that they don't hand-
20 deliver.

21 Q Do you think a newspaper, when it uses the mail to
22 deliver its total market coverage program is competing with
23 the Postal Service when it does that?

24 A To the extent that it's using the Postal Service,
25 it's not competing; to the extent that it's delivery pieces

1 that would otherwise be delivered through the mail, it is
2 competing.

3 Q Do you have any idea of what proportion of
4 newspaper preprints are delivered by mail as opposed to some
5 other -- I'm referring to delivery to nonsubscribers by mail
6 as opposed to an alternate delivery company?

7 A I really don't know. I think I have read
8 something that says that the practice may vary from one
9 paper to another.

10 Q On page 12 of your testimony at lines 3 and 4,
11 there's a passage that Mr. Straus addressed you to where you
12 state that the volume of newspaper inserts grew from 56
13 billion in 1990 to 82 billion in 1997, which is considerably
14 greater than the volume of ECR mail.

15 And there you appear to be comparing the number of
16 preprints you found in the cited interrogatory response to
17 the total volume of ECR mail. Is that the comparison you're
18 making?

19 A That is the comparison I'm making.

20 Q Are you assuming that each ECR mailing consists of
21 a single preprint?

22 A No, I'm comparing the preprints to the volume of
23 mail. I didn't make any assumptions; the mail is what it
24 is.

25 Q Are you assuming that each ECR preprint, in

1 effect, paid the full ECR rate?

2 A I didn't make that assumption, no. I don't think
3 I made any assumptions.

4 Q All right. Does the Postal Service volume data
5 indicate the number of preprint inserts mailed at ECR rates?

6 A It only indicates the number of mail pieces
7 handled, to my knowledge.

8 MR. BAKER: I'm now going to, with the Chairman's
9 permission, approach the witness to show him a piece of
10 mail.

11 [Pause.]

12 BY MR. BAKER:

13 Q Dr. Haldi, I have handed you a ValPak mailing that
14 was received at my home recently. Are you familiar with
15 envelopes of this type?

16 A Yes, I've seen some ValPak envelopes before.

17 Q Would the Postal Service have counted that as one
18 piece of mail?

19 A I feel certain they would, yes.

20 Q I don't believe I have opened that, but could you
21 open the envelope quickly and tell me if you see -- roughly
22 how many coupons you see inside of it?

23 A I would anticipate about 20, but I'll count them
24 for you.

25 [Pause.]

1 THE WITNESS: Well, I underestimated, there is 26.

2 CHAIRMAN GLEIMAN: Mr. Baker, can we have any
3 local pizza coupons that are in there for Thursday, just in
4 case it is a real, real long day?

5 MR. BAKER: You may, Mr. Chairman.

6 CHAIRMAN GLEIMAN: Thank you.

7 BY MR. BAKER:

8 Q Dr. Haldi, as an expert on ECR mail, do you
9 believe that newspapers would compete for each of those
10 coupons?

11 A This happens to be a Val-Pak envelope and,
12 historically, newspapers -- Val-Pak subdivides its marketing
13 areas into areas of approximately 10,000 residents, and I
14 know, historically, newspapers didn't reach down to that
15 small level in their distribution of either their run of
16 print advertising or their insert advertising.

17 I have read that they have refined their ability
18 to market to smaller and smaller areas. I don't know if
19 they reach as small an area as Val-Pak does, however, in
20 terms of marketing coverage.

21 Q So your testimony is you really don't know whether
22 newspapers would have been competing with Val-Pak for the
23 privilege of carrying those particular coupons?

24 A I really don't know at this point whether they
25 would be a viable competitor for these particular coupons,

1 but they do carry a lot of coupons in insert advertising in
2 newspapers.

3 MR. BAKER: Mr. Chairman, I would like to approach
4 the witness briefly with one more piece of paper.

5 BY MR. BAKER:

6 Q Dr. Haldi, you are also testifying on behalf of
7 Carol Wright, are you not?

8 A Correct.

9 MR. BAKER: Mr. Chairman, I have just approached
10 Dr. Haldi and provided him a copy of an envelope from Carol
11 Wright which I received at my residence recently. I would
12 note that it is addressed to Smart Shopper and so, arguably,
13 it is misaddressed, but in any event.

14 BY MR. BAKER:

15 Q Dr. Haldi, again, as with the Val-Pak envelope,
16 would the Postal Service have counted that as one piece of
17 mail?

18 A I feel certain that in the RPW system, this would
19 be considered one piece of mail, yes.

20 Q And can you just once again tell me how many
21 coupons were included in that envelope?

22 A I will, I want the record to note, however, this
23 envelope is opened, as opposed to the other one, which is
24 sealed. If I don't find any pizza coupons here, why we will
25 know.

1 [Pause.]

2 THE WITNESS: Well, including the piece that
3 carries the address on it, I count 18 pieces.

4 BY MR. BAKER:

5 Q Thank you. And is your understanding as to
6 whether newspapers compete with Carol Wright for the
7 privilege of carrying those coupons or inserts the same as
8 in the Val-Pak situation?

9 A No. My understanding is that Carol Wright tends
10 to focus on either regional or national advertisers,
11 whereas, Val-Pak, as I said, has very local advertisers
12 typically, like the local pizza shop, independent local
13 pizza shop, independent local shoe repair shop, or people
14 that have a very small marketing radius. Carol Wright, on
15 the other hand, would tend to carry advertising from
16 regional or national advertisers much more.

17 Q Do you know whether newspapers compete for the
18 delivery of regional and national advertising?

19 A I believe they do.

20 MR. BAKER: Mr. Chairman, I have no more
21 questions. If you wish, I will file the envelopes handed to
22 Dr. Haldi as Library References.

23 CHAIRMAN GLEIMAN: If you so wish.

24 Is there any follow-up? Mr. McLaughlin.

25 CROSS-EXAMINATION

1 BY MR. McLAUGHLIN:

2 Q Good morning, Dr. Haldi. I am somewhat intrigued
3 by some of these comparisons we are getting here comparing
4 newspaper insert preprints with other forms of advertising.
5 Do you subscribe to the Washington Post?

6 A No, I don't.

7 Q You do not.

8 A I don't live in the Washington area.

9 Q Oh. Have you ever seen the Sunday Washington Post
10 edition that includes preprints delivered in a separate
11 plastic bag?

12 A No, I haven't. I am a resident of New York City
13 and I subscribe to the New York Times. If you want to draw
14 some analogies there, I can respond perhaps.

15 Q Well, let's try that. The Washington Post is
16 obviously closer to home for most of us. Does the New York
17 Times on Sunday include a section that has preprints in it?

18 A Lots of preprints every Sunday, yes, sir.

19 Q In fact, I assume you haven't necessarily sat down
20 and counted the preprints that come in the Sunday New York
21 Times, but is it conceivable that it could be 26 from time
22 to time or -- it is a lot, isn't it?

23 A It is a lot. I don't know if I would have 26
24 separate preprints, but sometimes I have little sections
25 folded over that have maybe 20 coupons in that one section,

1 a coupon on each page typically.

2 Q Well, let's assume that what you are looking at is
3 a Val-Pak mailing that has 20 coupons in it, and you are
4 looking at a newspaper Sunday preprint section that has 20
5 Sunday preprints, would you, based on your experience with
6 the Sunday newspaper preprints consider those to be
7 equivalent to forms of advertising?

8 A For the person who is looking for coupons, I think
9 there is a high degree of equivalence. The better
10 comparison would be with the Carol Wright, however, because
11 the Times has too broad a coverage to carry things like
12 local pizza shops.

13 Q How would you -- the Val-Pak inserts there, what
14 is the dimension of those, roughly?

15 A Oh, I guess they are about 3 by 9, 3 by 8-1/2,
16 something like that.

17 Q A single sheet?

18 A A single sheet, yeah.

19 Q What is your typical insert in a New York Times
20 Sunday edition?

21 A I don't know what typical is, but I would probably
22 say it is eight pages.

23 Q And it is a much larger format?

24 A Four, two sheets folded once, larger format,
25 correct.

1 Q So if you were going to count, for example, share
2 of the marketplace or something like that, would you give an
3 equivalent count to each of those small single page Carol
4 Wright or Val-Pak inserts as you would to an eight or 16 or
5 24 page Sears or Home Depot advertising in terms of share of
6 the marketplace?

7 A I would consider one of those -- well, they have
8 shared, a better comparison would be the inserts that are
9 shared inserts, where you have cereals and toothpaste and
10 all kinds of products, and I would consider one of those
11 typical inserts with coupons in very comparable to the whole
12 envelope of Carol Wright coupons.

13 Q Do you received shared mail in your -- not the
14 coupon type ones we are talking about, but for example an
15 Advo type shared mail in your home?

16 A I don't know whether they have singled me out or
17 what, but I have to candid, I have never, ever received an
18 Advo shared mail piece for some reason.

19 Q Advo is not everywhere, I can assure you. So
20 based on your own experience, you wouldn't know whether
21 there is a difference in the mix of advertising that you see
22 inside a shared mail package compared to what you see in the
23 newspaper in terms of size, number of pages, format, weight?

24 A I haven't got a direct comparison. Frankly, I
25 don't spend a lot of time reading those inserts when I get

1 them. I tend to throw them all away en masse.

2 Q So you really wouldn't know what that comparison
3 is in terms of the general mix and character of what you see
4 in the mail versus what you see in newspapers?

5 A Well, the newspaper stuff varies widely, sometimes
6 I get a big, heavy, fairly heavy, it must be three to four
7 ounce insert. That is typically not on Sunday. It is so
8 heavy it falls out of the paper when I pick it up, and that
9 would be comparable to a lot of the catalogs I get in the
10 mail from Bloomingdale's, Macy's, Lord & Taylor and places
11 like that.

12 But then, as I say, the Sunday Times also has
13 sometimes, occasionally single page inserts, usually it is
14 at least one page that is folded over that we count as like
15 two pages front and back, or four pages if you are folding
16 it. And oftentimes they have multiple pages in them, and
17 those would be comparable, or bigger even than this Carol
18 Wright envelope here which has 18 separate advertisements in
19 it.

20 Q I'd like now to turn to something that was in the
21 cross examination by Mr. Straus. He was asking you about
22 the costs of private delivery, and, in particular, he was
23 focusing on things like sales costs, advertising costs,
24 administrative costs, that are involved in private delivery.

25 In your testimony, isn't it the case that what you

1 were talking about in terms of the private delivery
2 comparison is the choice that the mailer has in doing
3 private delivery versus doing the mail, and whether that
4 crossover point has been reached.

5 MR. STRAUS: I'm going to object at this point. I
6 know the Commission allows friendly cross examination,
7 especially in the written form, but if Mr. McLaughlin wants
8 to engage in friendly cross with this witness, at least he
9 should refrain from asking leading questions so that it's
10 Dr. Haldi's testimony and not Mr. McLaughlin's testimony.

11 MR. McLAUGHLIN: Fine. I will refrain from asking
12 leading questions.

13 MR. STRAUS: Will you refrain from asking friendly
14 cross?

15 [Laughter.]

16 CHAIRMAN GLEIMAN: Well, before we get into a big
17 argument and you guys waste a whole of time, I'll waste a
18 little bit of time. Let's just get on with the cross
19 examination.

20 I think the Commission knows friendly cross
21 examination when they see it. As a matter of fact, that was
22 a concern that we had when we looked at the list of
23 witnesses and parties who were going to cross examine this
24 morning.

25 It's clear to me that even though some people --

1 some parties, different parties, may be in the same
2 business, that they don't necessarily have the same
3 interests. That's pretty clear from the direct testimony
4 and the rebuttal testimony, and we'll sort out and take --
5 give proper weight to what might appear to be friendly cross
6 examination.

7 MR. McLAUGHLIN: Mr. Chairman, I have just one
8 last question.

9 CHAIRMAN GLEIMAN: Friendly or unfriendly?

10 MR. McLAUGHLIN: I will try to make it as neutral
11 as possible.

12 BY MR. McLAUGHLIN:

13 Q If you're looking at -- if you are a shopper
14 publication or a shared mailer, and you're looking at the
15 choice between using mail or private delivery, do you think
16 that sales and advertising costs would be incurred, whether
17 you stayed in the mail or whether you went into private
18 delivery or not?

19 In other words, are those costs that would be
20 incurred no matter which medium you chose?

21 A Restate the question -- don't restate it, repeat
22 it, please.

23 Q Okay. If you are the publisher of a shopper or a
24 shared mail publication and you're making a decision about
25 whether to use the mail or to use private delivery, would

1 the costs of sales and advertising be costs that would be
2 incurred whichever alternative you used, or would they be
3 costs that would be unique to just one form or the other?

4 A I would anticipate that you'd have to -- as a
5 publisher, you'd have to incur those costs regardless of how
6 you deliver the product.

7 MR. McLAUGHLIN: I have no further questions.

8 CHAIRMAN GLEIMAN: Is there any further followup?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, are there questions --
11 excuse me, I'm sorry, Mr. Straus.

12 FURTHER CROSS EXAMINATION

13 BY MR. STRAUS:

14 Q That last question from Mr. McLaughlin, the --
15 you're suggesting that if an entity other than the Postal
16 Service wants to get involved in delivering an advertiser's
17 piece, that entity would have sales expense.

18 But would the Postal Service have sales expense?

19 A To my knowledge, they don't incur any sales
20 expense for Standard A mail.

21 MR. STRAUS: Thank you.

22 CHAIRMAN GLEIMAN: Anybody else?

23 [No response.]

24 CHAIRMAN GLEIMAN: Questions from the Bench?

25 MR. ALVERNO: I do have one followup there.

1 CROSS EXAMINATION

2 BY MR. ALVERNO:

3 Q When you say the Postal Service does not incur
4 costs for Standard A mail, you're referring to attributable
5 costs as opposed to, perhaps, institutional costs; isn't
6 that right, Dr. Haldi?

7 A Excuse me, cost of what?

8 Q When you're referring to the Postal Service's
9 costs for Standard Mail A for its sales and marketing, for
10 example, for that product, you said that the Postal Service,
11 to your knowledge, does not incur sales costs.

12 But you're referring only to attributable costs
13 for Standard Mail A as opposed to institutional costs?

14 A Well, they have a national sales force and they
15 have people who are indicated as sales -- I guess sales
16 reps. I'm not sure what their title is, exactly -- account
17 reps who are assigned to various accounts, including major
18 Standard A mailers.

19 I'm not sure about the extent to which they are
20 there to troubleshoot as to opposed to market, and I don't
21 know how their costs are attributed, frankly, for that.

22 But in terms of the percentage of the revenues
23 they get and what they spend on this so-called sales force, I
24 think it's de minimis.

25 MR. ALVERNO: Nothing further, thank you.

1 CHAIRMAN GLEIMAN: Only because we stream
2 broadcast and somebody might be confused, that was not
3 anyone on the Bench; that was Postal Service counsel Alverno
4 who asked that question. I understand that there are no
5 questions from the Bench; is that correct?

6 [No response.]

7 CHAIRMAN GLEIMAN: That being the case, Mr. Olson,
8 would you like some time with your witness to prepare for
9 redirect?

10 MR. OLSON: Ten seconds.

11 CHAIRMAN GLEIMAN: You can even have a minute.

12 [Pause.]

13 MR. OLSON: We have none, Mr. Chairman.

14 CHAIRMAN GLEIMAN: That being the case, Dr. Haldi,
15 that completes your first appearance here today. We
16 appreciate your contributions to the record, and you're
17 excused until later on this afternoon.

18 THE WITNESS: Thank you, Mr. Chairman. I have
19 sorted out the food coupons from the other ValPak coupons
20 for you.

21 [Laughter.]

22 CHAIRMAN GLEIMAN: Well, actually, I received an
23 e-mail from our Ethics Officer who told me that because they
24 were sent to one of our Intervenors by one of our
25 Intervenors, I best not accept the coupons, rest I have

1 recuse myself from the case.

2 So, Mr. Baker, could I please have the coupons?

3 [Laughter.]

4 CHAIRMAN GLEIMAN: Mr. McLaughlin, I believe you
5 have the next witness.

6 [Pause.]

7 CHAIRMAN GLEIMAN: We'll take a short break.
8 Don't wander too far.

9 [Pause.]

10 Mr. McLaughlin, when you are ready you can
11 introduce your next witness or our next witness, as the case
12 may be.

13 MR. McLAUGHLIN: Give me a minute. I've got
14 several piles of testimony here.

15 CHAIRMAN GLEIMAN: Certainly.

16 [Pause.]

17 MR. McLAUGHLIN: Mr. Chairman, we do call Mr.
18 Bradpiece, in case you haven't already called him.

19 CHAIRMAN GLEIMAN: Counsel, you can proceed when
20 you're ready.

21 Whereupon,

22 BERNARD BRADPIECE,
23 a witness, having been called for examination, and, having
24 been first duly sworn, was examined and testified as
25 follows:

1 DIRECT EXAMINATION

2 BY MR. McLAUGHLIN:

3 Q Mr. Bradpiece, I am handing you a copy of a
4 document captioned Rebuttal Testimony of Bernard Bradpiece
5 on Behalf of the Saturation Mail Coalition, designated as
6 SMC-RT-1.

7 And I would ask you if this is your testimony in
8 this proceeding?

9 A It is.

10 Q Was it prepared by you or under your direction and
11 supervision?

12 A It was.

13 MR. McLAUGHLIN: Mr. Chairman, there is a
14 correction, and it's not the witness's mistake. On the
15 cover page there was a minor typo in the case caption. It
16 had 1997. That was one of those copy-and-paste errors on my
17 part, and we have changed that to the correct 2000 in the
18 record copies.

19 CHAIRMAN GLEIMAN: It's been a difficult
20 proceeding, and we can certainly understand how those things
21 happen, and we hope you all will be as understanding when we
22 issue our decision.

23 [Laughter.]

24 BY MR. McLAUGHLIN:

25 Q Mr. Bradpiece, with that, is the testimony true

1 and correct, to the best of your information and belief?

2 A It is.

3 MR. McLAUGHLIN: Mr. Chairman, at this time, I
4 would ask that SMC-RT-1 be received into evidence and
5 transcribed into the record, and I am handing two copies to
6 the Reporter.

7 CHAIRMAN GLEIMAN: Is there any objection?

8 [No response.]

9 CHAIRMAN GLEIMAN: Hearing none, if counsel would
10 please provide those copies of Rebuttal Testimony of Witness
11 Bradpiece to the Court Reporter, I will direct that the
12 testimony be transcribed into the record and entered into
13 evidence.

14 [Written Rebuttal Testimony of
15 Bernard Bradpiece, SMC-RT-1, was
16 received into evidence and
17 transcribed into the record.]

18

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SMC-RT-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C.

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY OF
BERNARD BRADPIECE
ON BEHALF OF THE
SATURATION MAIL COALITION

Communications with respect to this document should be sent to:

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August 14, 2000

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REBUTTAL TESTIMONY OF BERNARD BRADPIECE**AUTOBIOGRAPHICAL SKETCH**

1 My name is Bernard Bradpiece and I am the President, CEO, and owner of the
2 Pennysaver Group, a saturation mailed weekly free paper with a circulation of
3 1,300,000 in the States of Maryland and northern Virginia. I am also the owner of the
4 Metro Community News, a 290,000 circulation saturation weekly free paper that is
5 distributed in Erie and portions of Niagara Counties in New York by private carrier.

6 I came to America and bought the Maryland Pennysaver publication in 1996. I
7 moved here from the United Kingdom and sought an entrepreneurial venture that I felt
8 would help me and others pursue the American dream of starting, building, and
9 owning your own business. Before 1996, I worked as an independent international
10 business consultant and provided services commonly known as turnaround work to
11 businesses that included the parent corporation for British Aerospace, Ingersoll
12 Publishing, Ltd. (now known as Midland Independent Newspapers), Royal Worcester
13 and Spode Potteries, and Derby International, the manufacturer of Raleigh bicycles.
14 For each of these businesses, I was responsible for creating and executing
15 strategies to restructure business operations or balance sheets in order to improve
16 operating performance and/or attract new capital.

17 From 1983 to 1991, I worked for various bank groups with positions as Vice
18 President for Citi Bank and culminating in 1991 as the Managing Director for Chase
19 Manhattan Bank, head of UK Corporate Finance. Prior to 1983, I created and owned
20 my own business involving the sale and service of automobiles and operation of
21 petrol filling stations. I have a Masters Degree in Business Administration from the
22 Cranfield School of Management.

23 My papers are members of the AFCP (the Association of Free Community
24 Papers), the Alliance of Independent Store Owners and Professionals, and I am on
25 the Steering Committee for the Saturation Mailers Coalition.

- 2 -

PURPOSE OF TESTIMONY

1 As a newcomer to this country, and the mailed free paper business, I have
2 never tracked or participated in a postal rate proceeding. I have read the testimony of
3 William B. Tye, an economist hired by the Newspaper Association of America, and
4 John White who operates a distribution company owned by a daily newspaper and
5 who is testifying on behalf of the Association of Alternate Postal Systems. It is worth
6 clarifying that Mr. White is in fact employed by a newspaper group. His own
7 description of his position could have led to the unintentional misinterpretation that he
8 represented a small independent business. I do represent a small independent
9 business. The purposes of my testimony are:

10 1. To rebut the NAA and AAPS argument that "the USPS proposal [for Standard A
11 ECR saturation mail] would significantly harm [AAPS members or other competitors]."
12 AAPS-T-1 at p.7. My testimony will show:

13 a. Data that compares the costs to deliver a free paper by private carrier
14 and the costs to deliver that same paper under existing and proposed
15 saturation mail rates. Even with the modest pound rate reduction sought
16 by the USPS, the costs of private carrier will still be one-third the cost of
17 USPS distribution.

18 b. The high costs I am paying for postal distribution have made my
19 saturation mailed paper less competitive in securing and holding the
20 business of medium and larger advertisers. Our paper has seen a
21 decline in the account base of these customers and we have been
22 largely unable to sustain price increases for the last four years.

23 2. To rebut the NAA position that the record does not show that the USPS is being
24 threatened by ECR competitors or loss of ECR business, I will show the USPS is
25 vulnerable to loss of saturation mail business by saturation mailers acting individually
26 or together with other mailers to convert all or portions of their saturation mail delivery
27 coverage to private delivery. NAA-T-1 at p.45.

- 3 -

I. **THE COSTS FOR PRIVATE CARRIER DELIVERY ARE SUBSTANTIALLY BELOW EXISTING AND PROPOSED POSTAL RATES**

1 As somewhat of a newcomer to a business relationship with the USPS, I was
2 surprised to find that the statute gives our fiercest competitors standing and authority
3 in determining the business relationship and pricing levels I must pay with my largest
4 vendor. In addition, the newspapers and private delivery concerns have chosen not to
5 provide proper sworn evidence of their own costs to justify the self-serving and
6 unsubstantiated assertions they make about competitive harm.¹

7 In my industry, there are publishers like me who distribute papers both by mail
8 and by private carrier. Because of the great cost disparity between private carrier and
9 mail, and the high pound rate, papers that use the mail are often lighter weight papers
10 or papers in rural, less dense areas, where the cost of setting up a private carrier
11 force are greater.

12 My competitors' testimony in this case has been somewhat coy in criticizing
13 USPS data on costs for "thinness of tallies." It is no wonder to me that there are few
14 examples of saturation pieces mailed at the heavier weights as the cost for mail
15 distribution of heavier pieces is so high and so totally out of proportion to alternate
16 distribution costs for similar pieces.

17 Here is an example from my own experience of the great cost disparity between
18 private carrier distribution and existing and proposed postal rates. I recently
19 purchased a free paper in the area of Buffalo, New York. When I acquired the paper, I
20 had thoughts of converting my distribution to the USPS as I have been satisfied with
21 the service I received from the USPS and prefer to keep my organization focused on
22 publishing and marketing the paper. When I analyzed the distribution costs of my new
23 acquisition, any thoughts of converting to postal delivery vanished.

¹ From my own research, I believe it would be difficult for the newspaper industry to show competitive harm. Because of their significantly lower delivery costs, carrier delivered newspapers enjoy average operating profit margins of 31.56% (Inland Study Press Association 1998--Daily Newspapers Circulation 51,400 to 60,500).

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1 Printed on the following page is a chart comparing the private delivery costs to
2 deliver a typical paper with what I would pay under current postage rates and under
3 the proposed postage rates.

4 Some highlights to note in this comparison and the chart:

5 1. The name of the paper is Metro Community News in New York with
6 distribution in Erie County and part of Niagara County. The paper itself is a lightweight
7 piece but has built up a substantial insert distribution business.

8 2. The costs for hand delivery labor reflected below show a set price of
9 \$56.00 per thousand paid to the carrier, as well as a separate fee of \$1.20 per
10 thousand to a route supervisor. The carrier of this paper is paid \$5.60 per thousand
11 for every insert in the paper. This compensates the carrier for actually inserting the
12 piece in the paper and its distribution. The carrier is paid a flat rate per insert. Prices
13 are not set based on weight.

14 3. The rates paid for labor in these counties of New York are on par with the
15 costs a publisher would encounter in other major metropolitan areas. The labor
16 costs in smaller market areas are likely to be less.

17 4. Currently, my starting postage rate for my Pennysaver product with full
18 saturation with destination delivery unit discount up to 3.3087 ounces is \$114 per
19 thousand. The proposed increase on the piece rate will take me to \$120 per
20 thousand or a \$6 per thousand increase. The combined carrier and supervisor cost
21 to hand deliver a paper weighing almost 11 ounces is \$105.84 per thousand
22 compared to the \$120 per thousand for my mailed 3.3087 ounce piece. A dramatic
23 difference.

24 5. That same paper weighing almost 11 ounces under today's postage
25 rates would be \$369.23 for postage plus another \$37.00 for inserting and labeling for
26 a total of \$406.23. The per thousand costs under the proposed postage rates would
27 be \$334.90 for postage plus inserting and labeling for a total of \$371.90.
28

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COST COMPARISON OF POSTAL AND PRIVATE CARRIER FREE PAPER

	<u>Product</u>	<u>Piece weight in pounds</u>
	Typical Paper with 8 Inserts	Paper
Grocery Tab		0.046
Grocery Tab		0.132
Grocery Tab		0.084
Grocery Tab		0.044
Car Service Flyer		0.010
Retail Circular		0.020
<u>Retail Circular</u>		<u>0.022</u>
	<u>Total Weight</u>	0.682 (10.91 oz.)

Hand Delivery Costs		<u>Carrier</u>	<u>Supervisor</u>	<u>Total</u>
		56.00	1.20	57.20 perM
	<u>Carrier</u>	5.60	0.48	6.08 perM
Paper	56.00 perM ¹	5.60	0.48	6.08 perM
Inserts	5.60 perM	5.60	0.48	6.08 perM
		5.60	0.48	6.08 perM
		5.60	0.48	6.08 perM
		5.60	0.48	6.08 perM
		5.60	0.48	6.08 perM
		<u>5.60</u>	<u>0.48</u>	<u>6.08 perM</u>
			TOTAL	105.84 perM

Postal Costs			<u>Inserting and Labeling Costs⁴</u>	
	<u>Current</u>	<u>Proposed</u>		
Paper ²	114.00 perM	120.00 perM	Paper	9.00 perM
Inserts ³	0.537 per lb	0.450 per lb	Inserts	3.50 perM
	+ .003/piece	+ .028/piece		

Current Postal Rates			Proposed Postal Rates		
<u>Postage</u>	<u>Insert/Labeling</u>	<u>Total</u>	<u>Postage</u>	<u>Insert/Labeling</u>	<u>Total</u>
369.23	37.00	406.23	334.90	37.00	371.90

Total Costs PerM to Deliver 10.91 Ounce Paper By:

Hand Delivery	\$105.84
Current postal rates	\$406.23
Proposed postal rates	\$371.90

1 perM = per 1,000

2 Plus inserts up to 3.2985 ounces

3 Cost for inserts after paper and inserts exceed 3.2985 ounces

4 Labeling costs required by postal regulations--NOT a required cost for hand delivery.

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1 AAPS Witness White states in his testimony, "Lowering the pound rate would
2 further damage alternate delivery's ability to compete. . .with prices that could allow
3 shared mail packages to arbitrarily price below our costs, forcing alternate delivery
4 companies out of business." AAPS-T-1 at p.5. AAPS and NAA do not provide any cost
5 data from their industry to support their position that the USPS proposal will hurt their
6 members, let alone allow mailers to price below their costs. It is no wonder that
7 USPS competitors refuse to share their costs with this regulatory body. Even under
8 the rates proposed by the USPS, my postal cost of distribution will still be two to three
9 times higher than my competitors. The reality is that even the proposed postal prices
10 are too high. The USPS should be charged with generating price reductions so that it
11 and its customers can better meet the challenges of the dramatic technological
12 changes we all now face.

13 Based on the evidence, or lack thereof, produced by my competitors and my
14 own analysis of a cost comparison between private delivery and existing and
15 proposed postal rates, it is hard for me to fathom how the USPS proposal "could
16 adversely affect private competitors of the USPS" or tilt the playing field to favor
17 saturation mailers over advertising publishers and distributors who use private
18 carriers.

**II. HIGH POSTAL COSTS MAKE PUBLICATIONS DISTRIBUTED BY MAIL
TOO EXPENSIVE FOR MEDIUM TO LARGER ADVERTISERS**

19 AAPS Witness White maintains that the USPS proposal for ECR saturation mail
20 will "significantly harm" AAPS members. AAPS-T-1 at p.7. Although NAA Witness Tye
21 declines to offer any specific information about the costs, prices, or margins of the
22 newspaper industry, he criticizes the USPS filing for not offering any evidence of the
23 impact of rates on competitors and concludes, "The rate proposals conform to a
24 pattern of an enterprise seeking to use rate levels and rate design to shift volume
25 from private enterprise competitors." Tye accuses the USPS of having a "stealth
26 objective of diverting mail from private enterprise competitors." NAA-T-1 at pp. 21 and

- 7 -

1 47. Both Witnesses White and Tye criticize the USPS for not doing its job in
2 submitting these rate proposals by "considering the impact of rates on competitors."
3 NAA-T-1 at p.46.

4 I understand that this regulatory body has an obligation to consider "the effect of
5 rate increases upon the general public, business mail users, and enterprises in the
6 private sector of the economy engaged in the delivery of mail other than letters," (39
7 USC §3622(b)(4)) but also a desire and an obligation to preserve the long-term
8 health and stability of the USPS as a viable enterprise and competitor in the mail
9 delivery industry. In this section of my testimony, I will show that the present
10 saturation mail rates and the high pound rate have made it difficult for my mailed
11 shopper to be competitive in our market area, which in turn makes the USPS less
12 competitive as a distribution supplier. The USPS proposals in this rate case will
13 provide a small amount of relief to my paper but will have little impact on our
14 competitors. They will certainly not help us, or the USPS, achieve any "stealth
15 objective" of diverting advertising from private enterprise.²

16 The Pennysaver Group free paper is distributed weekly to approximately
17 1,300,000 throughout Maryland and northern Virginia. To serve our advertisers and
18 consumers, we offer complete saturation coverage. We do not distinguish between
19 low income and high income demographic areas, rural, suburban, or metropolitan
20 markets. In the four years I have owned and operated the paper, postal rates may

² As substantiation for Tye's conclusion that the USPS is targeting "the heavier pound rated ECR traffic for diversion," he points to a meeting that occurred between Witness Moeller and representatives of the Saturation Mailers Coalition and the Mail Order Association of America in November, 1998. I recently attended a meeting between Witness Moeller and representatives of the Association of Free Community Papers at the AFCP's annual conference. The mailed free papers in attendance at the meeting were not telling Witness Moeller how the proposed rates would help them divert business from competitors. Instead, many of the mailers in the room were questioning why the USPS rates for saturation papers would still be so high. One publisher, who has a small paper in an area that is largely rural and distributes his circulation 50-50 by mail and private carrier, states that when advertising brokers call him to place advertising in his paper that they comment that they know he must charge them more than they are paying to place advertising in papers that are distributed by private carrier because of the high postal distribution costs he pays. If I was to characterize the message the USPS is hearing from its saturation mail customers, and in particular mailed free papers, it is "if you want to keep our business you need to contain your costs."

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1 have been relatively stable but competitive conditions have not. Our marketplace has
2 become increasingly competitive and our medium to large customers are able to
3 demand more for their dollar.

4 As a free paper or shopper, our advertisers can purchase a zoned market buy
5 that fits their pocketbook and trade areas. The shopper business, and our Maryland
6 and Virginia Pennysavers, operate very much as described as SMC Witness Harry
7 Buckel. SMC-T-1 at pp. 6-10. Our core group of customers are the mom and pop
8 small businesses and individuals, like those described by AISOP Witness Orlando
9 Baro. AISOP-T-2 at p.3.

10 For a shopper to be successful, however, it needs a mix of small, medium, and
11 large local businesses. Both advertisers and consumers want a paper with
12 information on a wide variety of the shops and services in their area.

13 In recent years, competitive conditions and high postal distribution costs have
14 made it more difficult for our paper to retain the business of our medium to large
15 customers. The proposed postal rates, and the reduced pound rate, will not
16 substantially change this equation. But it will help stem the erosion of business we
17 have seen from our retail and service advertisers who purchase ROP advertising on
18 the pages of our paper.

19 Once again, I want to give this regulatory body facts, based on my personal
20 experience, to substantiate my position.

21 When I acquired the Pennysaver paper, our advertising revenue was split
22 roughly 75% with display ads and 25% with classifieds. Classified ads include ads
23 placed by individuals and consumers but they are also the ads run by the smallest of
24 businesses including individual service providers and home-based businesses.
25 Display advertisers are, in general, bigger concerns than classified advertisers.

26 Fierce competition for the business of medium to larger advertisers has
27 resulted in an erosion of our display ad customer base. To compensate for this loss
28 of revenue, our paper has focused on consumer and small business customers, and

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1 today our pages are divided roughly one-third between classified ads and
2 approximately two-thirds display advertising. High postal costs have made our paper
3 too expensive to effectively compete for any significant volumes of insert advertising.
4 Insert advertising is primarily delivered by private carriers--usually wrapped within your
5 Sunday newspaper. But this loss of the medium size or larger advertiser has
6 extended to our display advertising base and has made us less competitive with
7 privately delivered advertising publications and newspapers.

8 The USPS proposal for saturation rates, and the modest change in the pound
9 rate, will do little to change my paper's competitive position when it comes to the
10 insert advertiser. It will, however, help us keep our overall prices down for advertisers
11 and make us better able to retain the business of our display advertisers. By retaining
12 this mix of advertisers, we can keep our loyal readers interested in our paper and can
13 continue to deliver customers to the smallest of businesses that rely on our low cost,
14 zoned, classified ads to stay in business.

15 Witnesses Tye and White complain that ECR rates, and in particular the pound
16 rate, have not increased in real world terms since 1996. They do not offer any
17 evidence about what their industry has been able to do by way of increasing the prices
18 they charge their customers. On behalf of my saturation mailed shopper, I can tell you
19 that my display advertising rates today are the same as they were when I started the
20 business in 1996.

21 I must grudgingly confess that our prices are not the same today out of charity
22 to our customers or choice. After my acquisition of the business, we attempted to
23 pass on a price increase of approximately 3.5%. We immediately found out how price
24 sensitive our business was in this competitive market. Our small business
25 customers could not or would not pay more. In the face of a price increase, the small
26 advertiser instructed us to reduce the size of the ad, or its frequency or volume to keep
27 the same budget the advertiser had before the price increase. Our medium to large

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1 advertising customers responded by showing us they had other media choices. We
2 either kept their prices the same or risked the loss of their business.

3 My experience is the same as other free paper publishers. We have not been
4 able to increase revenues by simply raising prices. In the face of declining margins,
5 we have been forced to increase efficiencies by productivity gains and mechanization.
6 The revenue growth of our paper has come from increasing volumes and productivity,
7 not increasing prices. To fund growth and capital expenses, we have had to make
8 due with compression of our margins. Over the last four years, the Pennysaver Group
9 has seen a 2% decline in our profit margin.

10 From my perspective of the market, the USPS proposal to increase the basic
11 saturation rate by over 5% while modestly decreasing the pound rate will do little to
12 change the competitive playing field between a mailed free paper and other media.
13 My paper in Buffalo will still be distributed by private carrier. For my papers in
14 Maryland and northern Virginia, I would hope that the slight reduction in the pound rate
15 would help slightly offset the significant increase I will be seeing in my overall postage
16 costs at the piece rate.

**III. THE POSTAL SERVICE IS VULNERABLE TO LOSING SATURATION
MAIL VOLUMES FROM FREE PAPERS**

17 NAA criticizes the USPS proposal for ECR mail, and the USPS filing, as being
18 without justification. As a newcomer to these proceedings, and a mailer that depends
19 very much on the USPS, it appears my competitors are petitioning this Commission to
20 raise my postal rates to help them increase their prices and profit margins, and in turn
21 to justify charging their advertisers more. They may attempt to make this request
22 emotionally appealing to the Commission by pointing to the newspapers' editorial
23 role and by pointing to those AAPS members that are not owned by newspapers or
24 other publishers but are "independently owned," but both come to this Commission in
25 the role of asking this regulatory body to keep their mailed competitors' prices as high
26 as possible.

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1 NAA Witness Tye asserts that the increase in ECR volumes "undercuts any
2 argument that the USPS is being threatened by ECR competition." Our newspaper
3 competitors do not choose to share with this Commission how much of these
4 increased volumes might be due to their own TMC programs. I face vigorous
5 competition from mailed TMC programs in my market area and I cannot and will not
6 be able to compete with their prices under existing or proposed ECR rates. Their
7 ability to set insert prices for advertisers by averaging their lower costs of subscriber
8 delivery in the paper with the higher costs of mail will continue to allow them to set
9 prices for inserts that I cannot match in any 100% mailed shopper. Speaking on
10 behalf of my own circulation of 1,300,000 that is currently in the mail, I can assure this
11 Commission that much of that circulation is very vulnerable to being switched to
12 private carrier.

13 As a mailer and a major customer of the USPS, I would hope one of the
14 Commission's paramount concerns in setting fair and equitable rates is to allow the
15 USPS to continue to provide universal delivery service, at reasonable rates, in the face
16 of a changing communications environment. Certainly, as a business whose primary
17 vendor has been the USPS, I know that postal prices, and the uncertainty of the Postal
18 Service's future in an internet world, has forced me to consider alternatives.

19 I am happy with the level of service we get from the USPS. But at current prices,
20 and current economic conditions, mailers like the Pennysaver Group and similar
21 publications have to explore other ways to deliver their papers.

22 Under present rates, the Pennysaver Group is paying 23% of its total revenues,
23 and 48.5% of our costs of good sold, to the USPS. With the USPS taking such a big
24 bite out of every sale, I am certainly open minded to considering other ways to
25 accomplish the delivery of my paper.

26 It is my preference to remain a USPS customer for the Maryland and northern
27 Virginia papers. But as my experience in owning a private carrier paper in Buffalo

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1 continues, I will be learning about the distribution business and refining a "plan B" to
2 consider if postal rates increase, or competitive conditions change.

3 Through my participation in SMC, I anticipate networking more with fellow
4 mailers that distribute saturation mail advertising. Although our businesses and
5 products may compete in the marketplace, we have come together as an association
6 to represent our industry before the USPS, this regulatory body, and other lawmakers.
7 It is a short and logical step to explore the formation of a cooperative private delivery
8 venture to deliver our papers or other shared mail advertising programs.

9 It remains my preference to be a postal customer. I am participating in this rate
10 case and sharing confidential information about my company to give this
11 Commission a good basis on the record to approve USPS proposals that appear to
12 be based on the USPS listening to the needs of its saturation mail customers. But my
13 paper, and other shared mailers, will identify those portions of our distribution that
14 would be cheapest to convert to, and most cost-effective to service by, alternative
15 delivery. For heavier papers or shared mail pieces, and those in densely populated
16 metropolitan areas, the USPS is very vulnerable to loss of this business.

CONCLUSION

17 Postal distribution costs for saturation mail advertising are already much
18 greater than the comparable private carrier costs for similar pieces. The cost disparity
19 grows as the weight of the piece increases. For heavier pieces, USPS distribution
20 under existing, or proposed, rates is out of the question for all but the most spread out
21 rural and remote parts of this country.

22 Many free papers, like our Pennysaver Group, like the service we receive from
23 the USPS and would like to remain USPS customers. But the existing rate structure,
24 and the high prices we pay as our papers grow and become more successful, tempt
25 us to leave the mail to become competitors of the USPS. I believe the USPS
26 proposals in this case were made as a result of listening to businesses like mine.

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1 The USPS is trying to keep our business in the mail. The USPS proposals for
2 saturation mail will help my paper retain customers. It will do little to tilt or change the
3 competitive environment, but it will help.

4 I respectfully request the Commission to approve a rate for saturation mail no
5 higher than the rates proposed by the USPS.

1 CHAIRMAN GLEIMAN: Three parties have requested
2 oral cross examination, the Association of Alternative
3 Postal Systems, the Newspaper Association of America, and
4 ValPak Direct Marketing Systems, Carole Wright Promotions.

5 Is there any other party that wishes to cross
6 examine?

7 [No response.]

8 CHAIRMAN GLEIMAN: If not, Mr. Straus, you may
9 begin on behalf of AAPS.

10 CROSS-EXAMINATION

11 BY MR. STRAUS:

12 Q Mr. Bradpiece, you have just told your counsel, or
13 agreed that your testimony was prepared by you or under your
14 supervision, could you tell me which parts you prepared and
15 which parts were prepared under your supervision?

16 A There are a lot of lines in it, it is a little
17 difficult to determine which line.

18 Q Well, can you identify sections?

19 CHAIRMAN GLEIMAN: Excuse me a motion. Could I
20 ask you to just pull the microphone a little bit closer?

21 THE WITNESS: Yes, certainly.

22 CHAIRMAN GLEIMAN: Thank you.

23 THE WITNESS: I prepared things like the
24 autobiographical sketch. I was helped with the purpose, I
25 knew the particulars I was interested in rebutting, and

1 there is a way of writing these things, I am not a
2 professional, so I don't know how to write these things in
3 that way. And certainly I worked with my staff on the cost
4 comparisons

5 BY MR. STRAUS:

6 Q You say that you are a member of the Steering
7 Committee of the Saturation Mailers Coalition. For how long
8 have you been on the Steering Committee?

9 A I would need to check back, but I think I first
10 became involved in 1999, late in 1999. There was a meeting
11 in Chicago, a Postal meeting in Chicago, and that was my
12 first meeting with the committee, although I had
13 conversations previously with representatives of the
14 association.

15 Q Who else is a member of the Steering Committee, if
16 it is not too long a list?

17 A Dick Ment, Don Schultz, Advo, I can't remember the
18 others. There are about five of us, myself, there is
19 probably one or two more.

20 Q And how many members of the Saturation Mailers
21 Coalition?

22 A I think there is about 60, but perhaps you could
23 check with them directly.

24 Q And you pay dues, is that right?

25 A A very modest amount of dues, yes.

1 Q Like how much?

2 A I think it is enough money to pay for the meetings
3 at this point. We are all cost conscious.

4 Q And does everybody pay the same dues, or is there
5 a formula based on the size of the member, do you know?

6 A I don't recall because the dues are actually
7 voluntary.

8 Q You own Metro Community News, do you not?

9 A Yes.

10 Q When did you buy that?

11 A I bought it, formally acquired it about a month
12 ago.

13 Q And from whom did you buy it?

14 A I bought it from the founding owner, or his
15 company.

16 Q When you bought Metro Community News, did you buy
17 an alternate delivery company and a newspaper, or just a
18 newspaper? What did you obtain when you purchased it?

19 A I bought the assets of the business, and the
20 assets were a mixture. There is a community newspaper
21 business. There is a mailing business. The community
22 newspaper business also has attached to it a commercial
23 printing business, and there is a distribution business.

24 Q And you bought all of those businesses?

25 A That's correct.

1 Q Tell me something about the mailing business that
2 you bought?

3 A It is a small letter shop operation.

4 Q Your testimony is that alternate delivery is
5 extraordinarily inexpensive when compared to mail delivery.
6 Would I be correct then that this company you bought was a
7 very profitable enterprise at the time you bought it?

8 A No, you wouldn't be correct.

9 Q Why wasn't it making lots of money if alternate
10 delivery is so cheap?

11 A In the early '90s the owner of the company, who
12 had been extremely successful with the business, decided to
13 get into the horse rearing business, and the horse rearing
14 business is somewhat costly. And he spent most of the '90s
15 dealing with his horse rearing business.

16 In 1999, in January 1999, he decided to retire and
17 focus on his horse rearing business, and he gave the
18 newspaper business, which had made his fortune at that
19 point, to his son. His son employed a president who I
20 believe turned out to be a felon, and by the fall of 1999,
21 the business which had been profitable to that time, now had
22 -- and was in the black at the bank I think originally, now
23 had a deficit in the bank of about a million-and-a-half
24 dollars, and some unhappy bankers, and limited options for
25 the owner other than to try and dispose of the business.

1 Q And it was in fact in bankruptcy when you
2 purchased it, was it not?

3 A Yes, but I should reflect a little on that. The
4 bankruptcy -- we actually bought the business, or agreed to
5 buy the business before the business was put into
6 bankruptcy. Unfortunately, the week we were due to close,
7 20 armed IRS officers raided the business with a criminal
8 warrant, interested in whether or not I think the owner of
9 the business had actually joined with other people in
10 America making payments to the IRS, and the result of which
11 was we were advised by our local counsel that we could only
12 buy the business with certainty, because we now didn't know
13 what we didn't know, by forcing the business to declare
14 Chapter 11 so we could buy the assets out of Chapter 11 free
15 and clear of any risk of further attack by the IRS in the
16 future.

17 Q Again, the theme of your testimony is that
18 alternate delivery is much less expensive. You say on page
19 2, for example, that the costs of a private carrier are one-
20 third the costs of Postal Service distribution. Why isn't
21 everyone in alternate delivery if that is the case?

22 A I have to say that I have operated the Pennysaver
23 group in Maryland and Norther Virginia for four years. I
24 enjoy our relationship with the Post Office. We find them
25 very efficient and very helpful, and very friendly, but they

1 are not cheap.

2 Our assumption had always been that the costs
3 incurred with setting up a private carrier operation would
4 preclude us from going down that path, and we were much more
5 efficient focusing on what we do, which is publishing and
6 bringing buyers and sellers together.

7 The acquisition of this business in New York
8 certainly opened my eyes to a set of circumstances that, at
9 this juncture, I feel that I can't ignore, and that is that
10 the costs of the carrier delivery in New York are
11 significantly lower than the costs of the mail delivery in
12 Maryland and warrants greater attention.

13 Q Well, you have owned the Pennysaver for four
14 years, haven't you?

15 A That's correct.

16 Q You didn't know about alternate delivery until
17 July when you bought the Buffalo newspaper?

18 A My presumption had been, and this is an error on
19 my part, my presumption had been that any variation in cost
20 between alternate delivery and mail would favor us going in
21 the mail, because we believed from a marketing perspective
22 that being able to advertise, the certainty of delivery
23 which we get with the mail would be a competitive advantage.

24 Q What I am having trouble with here, Mr. Bradpiece,
25 is that you say that your paper had been in a decline and

1 that you hadn't been able to sustain a price increase for
2 four years, and in all that time you were just basing
3 alternate delivery on an assumption rather than actually
4 making a phone call or two and finding out about it?

5 A Yes, with the circulation that we have, the task
6 of setting up alternate mail is a significant task, and I
7 think we are now about 1.3 million circulation, and I would
8 not lightly tread down that path. Believe me, the last
9 thing I actually want to do is move out of the mail.

10 Q Wasn't there another -- was there an alternate
11 delivery company available to you that you could have used
12 rather than setting up your own?

13 A I don't think so.

14 Q The Washington metropolitan area is pretty dense,
15 isn't it, densely populated?

16 A Most of my circulation is in Maryland.

17 Q Is that suburban Montgomery and Prince George's
18 County?

19 A No.

20 Q Where is it?

21 A Baltimore Company, through Anne Arundel County and
22 down through Southern Maryland, which Southern Maryland is
23 extremely rural.

24 Q But Baltimore County is not?

25 A Baltimore County is not, that's correct.

1 Q And you are saying that there is no alternate
2 delivery company?

3 A I didn't know of one, none had come to me
4 advertising its wares.

5 Q Who are your fiercest competitors?

6 A Well, I think we treat all our competitors as
7 equally fierce. We compete with newspapers. We compete
8 with both regional newspapers and local newspapers. We
9 compete with all forms of direct mail.

10 We compete with television, we compete with radio
11 and we compete for business on the Internet.

12 Q And what authority do those authorities have to
13 set postal rates?

14 A I don't understand all the law. I understood the
15 postal rates were set here by the Commission based on
16 statute, but I was certainly surprised and a little puzzled
17 that the statutes had determined that amongst our fiercest
18 competitors was able appear here to encourage the Postal
19 Rate Commission to increase our prices in order for them to
20 maintain the monopoly pricing power that they do have.

21 Q But those competitors don't have any authority, do
22 they?

23 A I think that is probably up to the Commission to
24 say whether they have authority or not. I don't know.

25 Q When you use the word "authority" in line 2 of

1 page 3 -- yes, line 2 of page 3 of your testimony, what did
2 you mean there?

3 A Line 2, page 3 --

4 Q You say your fiercest competitors --

5 A Oh, yes.

6 Q -- have standing and authority --

7 A Yes.

8 Q -- in determining a business relationship and
9 pricing level, and the question is what did you mean by
10 authority?

11 A What I was trying to get across there as far as I
12 was concerned, as I understood things, the NAA had invested
13 significant amounts of money and effort and legal cost in
14 providing testimony which I found troubling and were
15 vociferous in this group here, and certainly would have some
16 influence on the decision of the Commissioners.

17 Q So by "authority" you meant influence?

18 A Yes, that's probably a better word.

19 Q Would you expect that your fiercest competitors
20 would let you know what their underlying costs are?

21 A Well, that is an interesting question. The
22 probably I had with the testimony that I did read was that
23 assertions were made, some emotive. None of the assertions
24 seemed to have any factual base and it was troubling to me
25 that the Commission were going to receive testimony that had

1 all sorts of assertions and I would have to look through the
2 evidence to determine.

3 I know that one particular piece of evidence
4 seemed to determine that the post office was run by idiots.

5 Q Mr. Bradpiece, we are going to be here a long time
6 if you repeat your testimony every time I ask you a
7 question. The question was whether you expect your fiercest
8 competitors would tell you what their costs are.

9 I understand what your position is. It's right
10 there on page 3, but the question wasn't your attitude
11 toward the testimony that was filed. The question is would
12 you expect that your fiercest competitors would tell you
13 what their underlying costs are?

14 A If they were making testimony to this Commission I
15 think they would have some obligation to verify the
16 statements that they were making.

17 Q You said that Advo is a member of the Saturation
18 Mail Coalition?

19 A That is correct.

20 Q Do you know whether Advo reveals its costs when it
21 appears before this Commission?

22 A I don't.

23 Q Do you know that, for example, Mr. White, who
24 appeared for Delivery Systems of Oklahoma and for the
25 Association of Alternate Postal Systems, revealed his prices

1 on the record here?

2 A I don't know that.

3 Q Do you know whether Advo has ever revealed its
4 prices on the record of this Commission?

5 A I don't know that.

6 Q In Footnote 1 on page 3 you use the term
7 "operating profit margins" -- could you define that for me,
8 please?

9 A Yes. That -- I define that as operating, excuse
10 me -- as earnings before interest, depreciation, and taxes.

11 Q No, you say it is a percentage. It is a
12 percentage of what?

13 A As a percentage of revenue.

14 Q But not as a percentage of investment?

15 A No. That's a percentage of -- it's an operating
16 profit, a percentage of operating revenue.

17 Q Do you have any comparisons for us? I mean do you
18 know what Advo's operating margin is, for example?

19 A No. I actually believe it may be less than that,
20 but I don't know that for certain.

21 Q And I would imagine yours is less than that?

22 A That's correct.

23 Q Let's look at page 4, where you discuss the costs
24 of Metro Community News. The \$56 per thousand, you state on
25 page 4, line 9 --

1 A Yes.

2 Q -- is that carrier carrying anything else or just
3 the Metro Community News?

4 A The carrier is usually carrying the Metro
5 Community News. It is carrying inserts and it may be
6 carrying samples.

7 Q So the \$56 per thousand does not cover the
8 inserts?

9 A That is correct.

10 Q And it does not cover the samples?

11 A That is correct.

12 Q You listed something else. I forget. You listed
13 three things that -- inserts, samples and something else?

14 A The Metro Community News, inserts and samples.

15 Q Would it every carry another piece that is not
16 inserted, that is just a free-standing advertising piece?

17 A As a practical matter, I can't answer that. I
18 think it is easier for everything to be bundled, put the
19 inserted bundle into the paper and then popped into the
20 carrier bag.

21 Q The advertiser might not want to be inserted
22 though. Isn't that true?

23 A That is correct. And what I found, one of the
24 attractive pieces of this distribution business, which I
25 guess is an alternate distribution business, is our -- the

1 opportunity we now have to put significant additional non-
2 weight sensitive product down the pipeline.

3 Q How many employees are involved with the alternate
4 delivery operation, other than the carriers, and other than
5 the supervisor?

6 A Probably -- it's probably about four people.

7 Q And how much capital investment was made over the
8 life of that company, do you know?

9 A No. The company was one, before we acquired it,
10 it was one business, presses and all sorts of different
11 equipment, prepress equipment, graphic design equipment.

12 Q Since you bought it -- not -- well, you bought it
13 in bankruptcy, but it was certainly under some strained
14 conditions, you think you got it at a pretty low price,
15 don't you?

16 A I would have ideally liked to have bought it for
17 less money, as I guess any businessman would.

18 Q That's quite a shock.

19 A I was trying to acquire it as a going concern.
20 Had it stopped publishing, its value would have gone to
21 zero, so we will see. I think the jury is out. If I turn
22 the business around and make it successful I will be a hero
23 and if I am not able to turn the business around, well,
24 everyone will have said I told you so -- it wasn't a smart
25 thing to do.

1 Q And you did not incur, though, the startup costs
2 that you feared you would have to incur in Maryland? Those
3 were already sunk costs when you bought the enterprise in
4 Buffalo?

5 A That is correct, but that's similar to the
6 enterprise in Maryland. There were some costs in that
7 business when I bought it.

8 Q Do you devote any of your personal time to the
9 Buffalo operation?

10 A I am currently devoting about two and a half days
11 a week to that operation.

12 Q And did you count yourself when you said four
13 employees?

14 A No.

15 Q Did you count other -- are there other people in
16 your main operation such as financial people or sales people
17 or anyone else that devotes any attention to the Buffalo
18 operation, other than you and the four employees?

19 A My training director. We are a central overhead
20 to both businesses.

21 Q You don't show any of those overheads on page 5;
22 do you?

23 A That's correct, in either comparison.

24 Q What county is Buffalo located in?

25 A Erie County.

1 Q And what's the biggest city in Niagara County?

2 A Good question. I guess it's Niagara Falls.

3 Q And how big is that?

4 A I can't tell you, offhand. We circulate the whole
5 of Niagara County, which is about 180,000 or so circulation,
6 and we circulate, I think it's 100,000 in Erie County.

7 Q And how much of Erie County's population is
8 Buffalo?

9 A I don't have those figures down.

10 Q Do you know how dense the distribution area is in
11 both of those counties?

12 A Relative to?

13 Q Relative to suburban Washington?

14 A I'd only be guessing to say that having driven
15 around a lot, the density in many of the areas in which we
16 operate is similar to certainly suburban Maryland.

17 Q And do you distribute in less densely populated
18 areas as well in those two counties?

19 A We tend not to because we have a part of Erie
20 County which surrounds Buffalo, and we have relationships
21 with the shoppers who have the less dense area which I think
22 is south of Buffalo.

23 Q I didn't understand, we have a relationship with
24 the shoppers. What does that mean?

25 A It means that for circulating -- I'm sorry, for

1 circulating inserts, we will do central buys linked with
2 other shoppers which allows us to cover the whole of Erie
3 County.

4 Q And who distributes those other shoppers?

5 A They're independently distributed.

6 Q But not by your company?

7 A No.

8 Q And you consider those areas that you serve to be
9 major metropolitan areas?

10 A I'm not sure what the formal definition is.
11 Buffalo is not a particularly large center.

12 I don't know how it compares to Baltimore, for
13 example. It certainly isn't as large as the Washington
14 metropolitan area.

15 Q Well, your testimony characterizes those areas as
16 major metropolitan areas, and now you just said you don't
17 know exactly what that means.

18 Was this one piece of testimony that was not
19 written by you, lines 14 through 16?

20 A Which page are we on?

21 Q Page 4.

22 [Pause.]

23 A No, that was probably an assumption on my part. I
24 think the people in Buffalo do consider it to be a major
25 metropolitan area.

1 Q Isn't that area economically depressed?

2 A Well, that may be your view. It's not the view of
3 the people that I talk to that live in Buffalo.

4 Q Do you have a view?

5 A I certainly believe the area is not as active and
6 as alive as some other areas of the country. It is not,
7 however, as bad as I had heard it previously portrayed.

8 And I have actually been quite excited at the
9 opportunity, because I believe that over time we will see
10 improvements in that area.

11 Q But at the present time the unemployment rate is
12 larger than the national average; isn't it?

13 A That could well be.

14 Q And, therefore, the cost of obtaining carriers
15 might be influenced by the unemployment rate and the general
16 state of the economy in the area; wouldn't it?

17 A I'm not sure that's correct for part-time people.
18 It certainly could be correct for full-time people.

19 Q Well, if people are having trouble finding full-
20 time jobs, doesn't it make them more willing to accept part-
21 time jobs, and wouldn't the normal laws of supply and demand
22 then tend to reduce the cost of part-time labor?

23 A Well, I think that Mr. Greenspan at the moment is
24 arguing that the laws of supply and demand have been
25 suspended as far as labor is concerned.

1 Q But you have no answer to my question?

2 A We are able to get labor in Maryland, and we're
3 able to get labor in Buffalo.

4 If you're asking me, is it going to be easier in
5 one area or another, in reality, that's the -- there will be
6 areas of the country where it is easier to get labor.

7 Q At the moment, when you're faced with a decision
8 such as you are in the Buffalo area and as you say you are
9 in Maryland as well to choose between Postal delivery and
10 alternate delivery, you would weigh a number of factors,
11 including the cost; wouldn't you?

12 A A number of factors, yes, including the cost.

13 Q And one factor would be sort of the prestige of
14 the mailbox versus the requirement that alternate delivery
15 not use the mailbox?

16 A That's correct.

17 Q And what else would favor Postal delivery over
18 alternate delivery?

19 A Ease of management.

20 Q Expense of management?

21 A Expense of management, yes.

22 Q And what would favor alternate delivery over
23 Postal delivery?

24 A A greater degree of control over our own destiny,
25 and the opportunity to put more product down the pipeline.

1 We currently are basically capped with the business we can
2 do by the difference between the piece rate and the pound
3 rate.

4 Q And at the moment, there's a lot of volume in the
5 mail, and there's volume in newspapers and there's volume in
6 alternate delivery.

7 Presumably, those decisions were made by the
8 distributor, based upon those and similar factors; weren't
9 they?

10 A That's an assumption and I can't make a comment on
11 other people's views.

12 Q All right, well, your decisions have so far been
13 based on weighing those various factors?

14 A We inherited a business in Maryland that had been
15 in the post for 16 years, and had a successful relationship
16 and a successful operating system, and we operated on the
17 basis of if it ain't broke, don't fix it.

18 Q But you said -- you just said before that you
19 thought about alternate delivery, and you assumed it would
20 be probably too expensive to set it up.

21 A No, at the time we didn't have any particular
22 thought about alternative delivery. We didn't see it as
23 something we were particularly interested in.

24 It was an assumption that it was going to be
25 problematic and that we were operating efficiently with the

1 Post Office.

2 Q Well, you wouldn't have reached the assumption
3 that it would be problematic unless you thought something
4 about it. I mean, it was on your radar screen.

5 A Yes, it was something that when we look at the
6 weekly check that we pay to the Post Office, it's our
7 largest single weekly expense, aside from salaries.

8 And we're conscious of it. I sign the check every
9 Wednesday, and I'm very conscious of the money that's going
10 out.

11 Q Assuming that you or someone else were to make a
12 decision to either to go alternate delivery or the Postal
13 Service based upon weighing all of those factors -- costs,
14 burdens, relationships -- if one factor were to change, say,
15 price, in other words, if alternate delivery suddenly got
16 cheaper than it is today or more expensive than it is today,
17 holding everything else equal, or if the Postal Service
18 either got more expensive than it is today or cheaper than
19 it is today, that would affect some people's decisions;
20 would it not?

21 A I'd have to answer the question by saying that in
22 the case of the Postal Service, that's correct, because the
23 decision for pricing is outside of our control.

24 In the case of alternate delivery, to the extent
25 that we had an alternate delivery system, it is not

1 immediately obvious that there will be some major change
2 that would affect whatever the pricing was.

3 There will be minor changes as wage rates went up,
4 but not a major change, unless there was some statutory
5 change that I can envisage.

6 Q Are your carriers in Buffalo independent
7 contractors or employees?

8 A They're employees.

9 Q Do you reimburse them for gasoline? How does that
10 work?

11 A No.

12 Q So the fee you pay them covers their own gasoline
13 costs?

14 A That's correct, for those people who are on motor
15 routes.

16 Q And for those people, have you had to increase the
17 fees since -- in the past year?

18 A I only bought the business four weeks ago and the
19 fees were both increased and decreased by the previous
20 president. The decrease in fees did cause some problem.

21 Q Before you bought the Buffalo operation, did you
22 do any research to see whether alternate delivery companies
23 as a general rule are very profitable, slightly profitable,
24 unprofitable like the one you purchased?

25 A No. When we bought the business, we were actually

1 focused on the newspaper side of the business, the newspaper
2 and the insert side. It was only after we had come way down
3 the line with the business and were reviewing the cost
4 dynamics that we got to realize that we had an opportunity
5 here we hadn't anticipated with the distribution business.

6 Q You didn't read the SAI report, did you?

7 A No. Sorry.

8 Q I didn't think so.

9 Who's your competition in Northern Virginia?

10 A Again, it's newspapers. We have the behemoth of
11 the Washington Post right on top of us. There are various
12 small regional newspapers, there are various shoppers that
13 are mailed from -- intermittently, and again, it's radio and
14 television.

15 Q And over the past few years, how has that
16 competition changed?

17 A It's gotten fiercer and fiercer.

18 Q Because of more entrants or because of some other
19 factor?

20 A There's certainly more entrants. There are a lot
21 more coupon mailers. There are a lot of -- there are more
22 people taking ad dollars out of the market. The market is
23 sharing its ad dollars with more people.

24 This is a natural business phenomena which I don't
25 ideally like, but that's part of being in business.

1 Q Is there a significant alternate delivery company
2 operating in Northern Virginia?

3 A I can't answer that.

4 Q If there were --

5 A They certainly haven't come to me to offer their
6 services.

7 Q Why don't you start one if it's so profitable?

8 A Well, the information that I have gotten on the
9 costs is only relatively recent, and when I look at the
10 current discrepancy, I take the view that, in reality,
11 starting up from scratch may not give me two-thirds cost
12 saving, but on my total postal bill, if I get one-third cost
13 saving, my investors will be delighted with me.

14 So it is something that is under review, but I
15 think I stated at the outset and I think I've been clear in
16 my testimony that we believe in the Postal Service and our
17 preference is to remain in the Postal Service.

18 Q Because you balanced all of the factors we talked
19 about before?

20 A That's correct, although that precludes my
21 discussion with you on price because I'm only just beginning
22 to understand the fairly significant difference between the
23 two.

24 Q How much of your postal rate has gone up in the
25 four years you've owned Penny Saver?

1 A I don't believe they have gone up.

2 Q Which of your other costs have not gone up, your
3 other major cost categories? Have you given pay raises to
4 your employees in the past four years?

5 A Yes.

6 Q Have your costs of utilities gone up?

7 A My guess would be yes, but I can't say.

8 Q What about -- I mean, do you own property or do
9 you rent property?

10 A We rent property.

11 Q And has the rent gone up?

12 A No.

13 Q No?

14 A No. We have a long-term fixed rental, so it
15 wouldn't be affected.

16 Q Have you expanded at all?

17 A Significantly, yes.

18 Q And so your -- even though your rent per square
19 foot might not have gone up, your rental costs have gone up?

20 A Yes. When we bought the business, we had about
21 630,000 circulation and about 250 employees, and today, four
22 years later, we have a million-three circulation and about
23 350 employees.

24 Q Do you own vehicles?

25 A No. Oh, sorry. We own one truck.

1 Q How do you get your material to the Postal
2 Service?

3 A We lease.

4 Q Lease what?

5 A We have an arrangement with a carrier who actually
6 delivers trucks to the Post Office for us.

7 Q Has that price gone up?

8 A I think it has been relatively stable, but I would
9 have to check on that.

10 Q Let's say that if you don't get back to us, it has
11 been the same over the four years, but if it's different,
12 you'll get back to us, or do you want to reverse that burden
13 and say if it's gone up, you won't get back, and if it's
14 stable, you will?

15 A Either way which suits you.

16 Q Well, I don't want to burden you, so you --

17 A I'd certainly be happy to get back to you if it
18 has gone up. I know the actual amount has gone up because
19 we're now trucking a lot more, and I think, in fairness, we
20 negotiated volume discounts over time which may have
21 precluded the unit cost from rising.

22 Q I'll withdraw the request.

23 A Thank you.

24 Q And you don't know whether the average cost of the
25 carriers in Buffalo has gone up over four years, do you?

1 A Other than I know it has gone up and down, no, I
2 don't know.

3 Q Do you have an equivalent comparison to the one
4 you make on page -- to the statement you make on page 11,
5 lines 20 and 23, where you say that 23 percent of the Penny
6 Saver's revenues are postal costs, are represented by postal
7 costs, do you have an equivalent number for Buffalo, or does
8 the fact that it's a combined business make it too difficult
9 to dig it out?

10 A I think the latter because we get involved in
11 interdepartmental pricing, which tends to blur the issues
12 somewhat, as it does in the Post Office.

13 Q The other -- what would be your next two biggest
14 cost components? First of all, is the Postal Service, 23
15 percent, is that your single largest cost?

16 A No. Salary is my single largest.

17 Q And then what?

18 A Then the postal cost.

19 Q And then?

20 A And then newsprint.

21 Q And then -- if you combine newsprint and printing,
22 the total production cost, would that be more or less than
23 postal costs?

24 A In talking about my cost of good sold, my cost of
25 good sold is the total production cost, which would include

1 the post newsprint and all production -- including all
2 production salaries.

3 Q Since your postal costs haven't changed in the
4 four years you've owned the Penny Saver, would you say that
5 the competitive situation you face now is better, worse, or
6 the same as it was four years ago?

7 A I would say it was worse.

8 Q We may have gone over this a little bit before.
9 What would you say the single biggest factor would be in why
10 it's worse for you even though your postal costs haven't
11 changed?

12 A I think it's to do with market new entrants, I
13 think it's to do with alternatives for the advertiser. I
14 think it's to do with the difficulties that small businesses
15 have in general. We deal -- cater almost wholly -- almost
16 wholly, not wholly, but almost wholly with small businesses.

17 Q And for an alternate delivery company, if there
18 were one in that same area, it would be facing all of those
19 issues, would it not?

20 A Well, it --

21 Q More market entrants, dealing with local
22 businesses, the fact that the advertising dollars are now --
23 that there is more competition for advertising dollars with
24 the Internet and things like that?

25 A I'm not sure how that would relate to someone who

1 is giving a delivery service as opposed to someone like us
2 who is bringing buyers and sellers together and is offering
3 an advertising service.

4 Q Your delivery service in Buffalo doesn't go out
5 and try to obtain new customers?

6 A Well, perhaps should have been doing and they will
7 be doing shortly.

8 Q So that would be -- what I'm trying to get at is
9 that the factors that you listed as making your competition
10 worse over four years notwithstanding flat postal costs,
11 wouldn't those same pressures be felt by an alternate
12 delivery company which would, in fact, not have the luxury
13 of having 23 percent of its costs being flat?

14 A Well, I think the issue we face in Buffalo is that
15 we, I think, unless there is an alternative delivery system
16 there which I don't know about, we're probably the only
17 carrier delivered system that's covering that large an area,
18 which we saw as an opportunity.

19 MR. STRAUS: I have no more questions. Thank you.

20 CHAIRMAN GLEIMAN: Mr. Baker.

21 CROSS EXAMINATION

22 BY MR. BAKER:

23 Q Good morning, Mr. Bradpiece.

24 A Good morning.

25 Q I'm appearing on behalf of the Newspaper

1 Association of America.

2 I want to start with a couple questions about the
3 Metro Community News. You describe that on page 4 of your
4 testimony as a -- I thought it was on page 4 -- yes -- as a
5 lightweight piece. Does it publish editorial content?

6 A Yes.

7 Q News, local news and sports, things like that?

8 A No. No. Hopefully we'll be doing that shortly.

9 Q What does it publish, then?

10 A It previously published articles written by the
11 prior owner on his views of life's great political issues.
12 It did publish articles by local people about local history
13 and it publishes general interest articles. It has in the
14 past published articles about school children who have done
15 good works and things like that. But it isn't -- from my
16 perspective, there is a lot of opportunity for it to develop
17 as a local community newspaper.

18 Q Did it have a reporter staff?

19 A At one time, it did, then it was reduced, and
20 we're about to add some more people to it, although it does
21 currently have four people in its editorial department, two
22 of whom are writing stories.

23 Q How often does it publish?

24 A It publishes weekly.

25 Q Weekly. And it's hand-delivered?

1 A And it's hand-delivered.

2 Q On page 4, you discuss what the carriers and
3 supervisors are paid in that market on lines 8 through 13
4 there. Mr. Straus covered some of this; I have only a
5 couple of additional questions.

6 Are these route supervisors and the carriers here
7 your employees?

8 A Yes.

9 Q Okay. Is it a wholly-owned subsidiary or is it
10 sort of combined?

11 A It's combined as part of -- it is part of Metro
12 Group, but we separate it out as a division.

13 Q Okay. And you cite a rate for delivery of the
14 insert of \$5.60 per thousand for each insert the carrier
15 delivers; is that correct?

16 A That's correct, that's what we pay the carrier.

17 Q That's per insert, so for two inserts, you would
18 pay twice that?

19 A No. It's \$5.60 for a thousand inserts.

20 Q Right. But if there was a second thousand inserts

21 --

22 A If there was 2,000 inserts, he would be paid --

23 Q Twice that.

24 A Twice that, yes.

25 Q Okay. Who set that rate?

1 A That rate was set historically. It was increased
2 in the summer of 1999 and decreased in the fall of 1999.

3 Q Well, is it set by Metro Community news
4 organization?

5 A Yes.

6 Q Do you know whether, in setting that rate, Metro
7 Community News took into account the average weight of the
8 inserts that the carriers typically were carrying in that
9 market?

10 A I don't believe it did.

11 Q Okay. Do you -- does the Metro Community News
12 carry product samples?

13 A It does.

14 Q And are they priced -- is the carrier compensated
15 for that on the same basis as the inserts?

16 A Yes.

17 Q So a product sample counts as an insert for --

18 A Yes. I need to check whether that's precise, but
19 as far as I'm aware, that's correct.

20 Q Okay. Mr. Straus asked you about line 15 on page
21 4 where you state that the rates paid for labor in Erie and
22 Niagara counties were on a par with the cost publishers
23 would incur in other metropolitan areas. Which other
24 metropolitan areas did you have in mind?

25 A I was looking at the rates that we're paying in

1 Maryland and the rates in -- that we're paying in western
2 New York are not too dissimilar.

3 Q And in Maryland, you -- Baltimore, did you say?

4 A We operate just south of BWI Airport, so actually
5 on the verge of --

6 Q Which counties are you in?

7 A Anne Arundel County.

8 Q Anne Arundel County. Is that -- is Annapolis the
9 largest city --

10 A Annapolis is the bottom end of Anne Arundel
11 County, yes.

12 Q So this passage here on line 15 is not meant to
13 refer to any other metropolitan areas other than the two in
14 which you operate?

15 A I was dealing with the experience I have, yes.

16 Q I would like for you to turn to page 5 of your
17 testimony where you present the cost comparison of postal
18 and private carrier paper, and this is for the Metro
19 Community News, correct?

20 A For private carrier, yes.

21 Q Yes.

22 A That's correct.

23 Q Of the Buffalo --

24 A Yes, that's correct.

25 Q And was this your intent here, that this would be

1 a typical example, an example of a typical copy of the Metro
2 Community News in terms of paper weight and number of
3 inserts and so forth?

4 A Yes. We pulled out a paper that was, I have to
5 say, reasonably weighty and tried to do some direct
6 measurements.

7 Q Okay. And near the bottom, you present a
8 calculation of the postage costs for this typical paper of
9 \$371.90 per thousand; is that correct?

10 A That's for the proposed -- that's what the paper
11 will cost to post under the proposed postal rate increase.

12 Q And is that the saturation rate with DDU entry?

13 A Yes.

14 Q Could you -- I direct your attention to the top of
15 the page where you present the weight calculation of this
16 typical paper, and -- do you see that?

17 A Yes, I do.

18 Q Now, I see it says it's a typical paper with eight
19 inserts, but I count only seven. Is that accurate?

20 A I think that may be a typographical error. One,
21 two, three, four, five, six, seven. That's correct.

22 Q Okay. And you sum the column to be 0.682 pounds;
23 is that correct?

24 A Yes.

25 Q On the total weight?

1 When I add that column, I get a different number.

2 Could you add that number up for me again?

3 A I think there is some -- I think the eighth insert
4 must have dropped off when that was being typed. I think
5 you are correct.

6 Q Do you total the numbers here to 0.442 pounds?

7 A Yes.

8 Q Is that approximately seven ounces, 7.07 ounces,

9 --

10 A Yes.

11 Q -- subject to check?

12 A Yes. I would have to check. I think we probably
13 had eight inserts there, and when this was typed up, we
14 didn't do the typing and we missed that.

15 Q So the difference between 10.91 ounces and 7.7
16 ounces would be about 3.84 ounces?

17 A Yes.

18 Q Do you typically carry an insert weighing 3.84
19 ounces?

20 A I don't think so. We may. I'm just trying to
21 think. There's a lot of grocery inserts in there and those
22 grocery inserts, I'd have to check on what the weights were.

23 Q Could you -- do you happen to know what the postage
24 rate would be under the Postal Service's proposed rates for
25 a paper that had the seven inserts listed here weighing

1 total weight of 7.07 ounces?

2 A No, but I'm sure you've done the sum.

3 Q Well, would you accept subject to check that it's
4 approximately \$227 per thousand?

5 A Subject to check, that seems to be a significant
6 reduction, but if you've done those numbers, subject to
7 check.

8 Q I'm sure you'll have an opportunity to calculate,
9 and if I have miscalculated, I'm sure you'll give me the
10 correct number, but that's what I got.

11 Q On page 6, I'd like you turn to page 6 of your
12 testimony.

13 A Yes.

14 Q You -- in line 10, you state the passage here that
15 the Postal Service should be charged with generating price
16 reductions so that it and its customers can better meet the
17 challenges of the dramatic technological changes we all
18 face.

19 I'm just wondering, what dramatic technological
20 changes do you foresee for the newspaper, free paper market?

21 A I see a major challenge for all printed products
22 coming from the Internet, and I think we're only just
23 beginning to see the start of a revolution that's operating
24 at a faster and faster pace.

25 And I believe that the way that -- there are two

1 ways we will compete in that revolution. The print product,
2 I believe, properly managed, will continue for the
3 foreseeable future.

4 We need to find ways of being useful for our
5 advertisers and our consumers, utilizing the Internet. And
6 we have strategies and plans for that.

7 But most important of all of our printed product,
8 we need to have very strong cost control, and that cost
9 control will require continuing the significant capital
10 investment we've been making in technology to ensure that
11 our product is the most cost efficient provider for our
12 advertisers.

13 And by cost efficient providers, I mean that our
14 product generates traffic for our advertisers.

15 Q Are you expecting that the Postal Service will
16 need to make substantial investments to improve its
17 technology as well?

18 A I understand the Postal Service has been doing
19 that. I would expect it to be making more investment.

20 Q All right. I would like now to turn to a line of
21 questions about your Penny Saver paper published in Virginia
22 and Maryland.

23 That's a free paper?

24 A It is, yes.

25 Q And it's distributed to about 1.3 homes in, you

1 state, in Northern Virginia and Maryland?

2 A Yes, that's correct.

3 Q Do you deliver to D.C.?

4 A To areas of D.C., yes.

5 Q Within the Washington city limits?

6 A I don't believe we deliver right into the city
7 limits.

8 Q And you mentioned a number of the competitors you
9 face in the market. Do you include Advo as one of your
10 competitors?

11 A Very fierce competitor.

12 Q Does the Penny Saver include any news or editorial
13 content?

14 A About 20 percent of the product is non-
15 advertising, and includes community bulletin boards, and
16 there are various items of interest which interest our
17 readers, horoscopes and crosswords and so on.

18 Q And how large is your editorial staff to put all
19 that together?

20 A We have one, two, three, four people putting that
21 together. A lot of our -- the community bulletin board
22 actually comes into us. It's church faiths and so on, and a
23 lot of that is forwarded to us directly.

24 Q And this is totally mail distribution, correct?

25 A That's correct.

1 Q What day do you mail on?

2 A They go out to the mail on Wednesday, and a little
3 goes out on Thursday.

4 Q And what's your desired delivery window? What
5 days would you like to have it delivered?

6 A It's currently delivered -- as I understand, it's
7 delivered on Thursday, and that seems to work fine for
8 everybody.

9 Q Now, what proportion of your Penny Saver is mailed
10 at the pound rate, versus the piece rate?

11 A A relatively small portion. I think we have about
12 2.5 percent that goes out at the pound rate.

13 We're very careful to try and manage our weights
14 so that we don't go into the pound rate.

15 Q At page 8 on line 22 you state that you when you
16 acquired the Penny Saver, your advertising revenue was split
17 roughly 75 percent display ads, and 25 percent classifieds.

18 A That's correct.

19 Q Does the term, display, correspond to what
20 newspapers call run of press?

21 A Yes.

22 Q Okay.

23 And you go on a few lines to state that the fierce
24 competition for business of medium to large advertisers has
25 resulted in an erosion of your display ad customer base.

1 Has that erosion been to display ads elsewhere, or
2 have the display ads been converting to preprint?

3 A Both.

4 Q Both.

5 Can you give me a ball park estimate of how much
6 is going to other ROP, versus how much is going to preprint?

7 A I don't have those numbers off the top of my head.

8 Q And when they convert to preprint, do you
9 sometimes carry the same ads, at least the newly reformatted
10 preprint ad instead of an ROP ad from the same advertiser?

11 A That's correct.

12 Q And in that sense, you are still competing with
13 anyone who will deliver the same advertisers' stuff, but
14 it's in reprint format; is that correct?

15 A That's correct.

16 Q And are there business reasons why the advertiser
17 might prefer a preprint format to a display ad?

18 A It's hard to say. The largest group that are -- I
19 would describe as converters, are the auto dealers.

20 And the auto dealers tend to have a way of
21 operating that is sometimes difficult to determine, but they
22 all decided that they wanted to go into the preprint
23 business, and a large number of them moved into the preprint
24 business.

25 Q And to the extent advertisers have eroded to leave

1 the Penny Saver, is it safe to assume they've gone to any of
2 the competitors that you deal with in your markets?

3 A Yes.

4 Q If you could turn to page 10, lines 4 to 5, where
5 you state that you have been forced to increase your
6 efficiencies by productivity gains and mechanization, and
7 that's not a bad thing; is it?

8 A Absolutely not.

9 Q It's a good thing?

10 A Yes.

11 Q You're more efficient and more productive?

12 A Yes. None of my testimony is designed to plead
13 poverty to the Commission.

14 Q Further, still on page 10, down around lines 13 to
15 15, you state that for your papers in Maryland and Northern
16 Virginia, you had hoped that the slight reduction in the
17 pound rate would help slightly offset the significant
18 increase you will be seeing in your overall postage costs at
19 the piece rate.

20 I want to focus on the word, offset. What did you
21 mean by, offset, there?

22 A My hope was that we would be able to add in more
23 preprints and to produce a heavier product, and so the net
24 result for us from a profit perspective would at least be
25 neutral.

1 Q So you expect your postage bill would rise?

2 A By postage bill -- in that case, my postage bill
3 and my revenue would rise.

4 Q Okay.

5 A As we go out to the box, my postage bill is rising
6 and my revenue isn't.

7 Q Do you anticipate, if the proposed Postal Service
8 proposed rates go through and take effect, that you will be
9 reducing your preprint rates?

10 A It hadn't occurred to me.

11 MR. BAKER: Mr. Chairman, I have no more
12 questions.

13 CHAIRMAN GLEIMAN: Mr. Olson?

14 THE WITNESS: May I add to that answer? I don't
15 have to --

16 CHAIRMAN GLEIMAN: I think that the best thing to
17 do at this point would be to wait and see if your counsel
18 and you decide you want to do some redirect later. Then you
19 can add further responses to whatever you have already said,
20 since counsel for NNA would have to come back up and be
21 prepared to ask more questions if your additions prompted
22 the same, so we'll just wait for redirect.

23 CROSS EXAMINATION

24 BY MR. OLSON:

25 Q Mr. Bradpiece, my name is William Olson,

1 representing Val-Pak, and I want to follow up on some of the
2 questions before. I believe you said when you purchased
3 Metro Community News and I think you called it Metro
4 Group -- is that the corporate name of it?

5 A That is correct.

6 Q Okay -- that it had four divisions within in, the
7 newspaper, printing, mail shop, and distribution. Is that
8 accurate?

9 A That is correct.

10 Q Are those integrated financially into one
11 corporate entity then?

12 A Yes.

13 Q And do you maintain each of the divisions as
14 separate operating divisions and track profitability for
15 each one of them?

16 A I am answering yes to the question, but we have
17 only been doing it for four weeks, so yes, that is how it
18 should be done.

19 Q So you do track profitability for each one?

20 A That is what we are doing as we currently speak.

21 Q Is the distribution business that does the on-
22 the-street private delivery, is that a profitable division
23 within the company?

24 A That's a good question. I believe it will be. If
25 you are asking me is it today, I have a little difficulty in

1 determining the profits of the business as a whole.

2 Q So in other words you think it is not profitable
3 or you don't know?

4 A No, I think it should be profitable from the
5 analysis we have done, but it is not wholly clear.

6 Q Right. No, I don't mean prospectively in your
7 future plans. Whenever you have investors, everything is
8 going to be profitable in the future, but so far as you
9 know, has that division been profitable till now?

10 A The difficulty I am having answering the question
11 in a straightforward way is that the books of account were
12 in some disarray when we acquired the business and we put
13 the books of account back together again, and the business
14 that I bought overall is a profitable business.

15 Q I don't mean to put words in your mouth at all,
16 but does that mean that you don't know whether the
17 distribution business has been profitable?

18 A My assumption from the analysis we have done is
19 that it is profitable but I am not able to give audited
20 financials to say that it has been.

21 Q Did you say that the distribution business does
22 not currently offer its services to anyone other than Metro
23 Community News? In other words, you don't have other
24 customers?

25 A No, I didn't say that.

1 Q What other kinds of customers does the
2 distribution service service?

3 A It services grocery businesses, so general
4 preprint businesses that preprints are a separate selling
5 group that we actually moved into the distribution business.
6 It was outside of it previously and it also services
7 companies that need sampling done.

8 Q And we are not talking about just inserts into the
9 newspaper but we are talking about other companies' pieces
10 that are being delivered by your distribution division, or
11 do they all simply become inserts into the paper?

12 A They all simply become inserts into the paper. I
13 think the question was asked previously would we deliver
14 something separately within the bag.

15 Q Okay. What day of the week is the newspaper
16 delivered?

17 A It is delivered on Saturday mornings.

18 Q And does that mean that your workforce is entirely
19 part-time?

20 A The delivery workforce?

21 Q Yes.

22 A Yes.

23 Q And supervisor workforce?

24 A Yes.

25 Q One day a week?

1 A I think it starts on Friday evening getting
2 organized, but basically yes.

3 Q Okay. Is the newspaper delivered to every
4 resident in Erie and Niagara Countries?

5 A It is delivered to every resident in Niagara
6 County and part of Erie County.

7 Q I don't recall if you testified before as to
8 whether there were other competing saturation delivery
9 businesses in Niagara and Erie Counties other than the
10 Postal Service, of course?

11 A I would need to check back that information. I
12 don't believe Advo, for example, is there, but it would not
13 surprise me that there were other saturation mailers there.

14 Q To your knowledge has the newspaper and the
15 inserts always been delivered by private carriers since the
16 company was founded?

17 A To my knowledge, yes.

18 Q How long ago was the company founded?

19 A Thirty years.

20 Q Is it delivered in plastic bags?

21 A Yes.

22 Q Do you know if the bulk of employees walk the
23 routes or whether they deliver from vehicles or whether they
24 use what in the Postal Service parlance is a park-and-loop
25 route, if you know what that is?

1 A I don't know what that is, but I do know we have
2 largely walking routes with a small percentage of motor
3 routes?

4 Q Park-and-loop is where you drive to a spot and
5 then you walk for awhile and then come back to your car and
6 move the car and walk around another area. Is that --

7 A I would have to admit ignorance on it.

8 Q Well, that may be a poor description of a park-
9 and-loop too, so -- when you talk on page 6, if you could
10 turn to that, line 13 of your testimony, about your
11 competitors, are you talking about your competitors in the
12 distribution business?

13 A I have to say in fairness that my reluctant
14 testimony was prompted by previous testimony of the NAA and
15 to the extent that other types of mailers have given
16 detailed information, that is not something that I have
17 seen.

18 Q And -- no, actually my question was what type of
19 competitors you were referencing in page 6, line 13, when
20 you talked about competitors.

21 Were you talking about competitors to the delivery
22 component of your business?

23 A I think when I was doing that I was referring to
24 the NAA and the NAA's testimony. I see the newspapers as a
25 fierce competitor.

1 Q Okay, so you are talking about newspapers that are
2 delivered in that area predominantly by their own carrier
3 forces?

4 A Yes.

5 Q And right up above that, and it is in line 8, you
6 say, "Even under the rates proposed by the UPS my postal
7 cost of distribution will still be two to three times higher
8 than my competitors'. What do you base that on? What
9 information do you base that on?

10 A That was based on my presumption that in the
11 analysis that we had done if our business in Buffalo was
12 operating at those sorts of rates then a much more efficient
13 newspaper operation should be able to match those rates.

14 Q So it is based on that assumption?

15 A Yes.

16 Q Okay. How many employees do you have in the
17 carrier force for the distribution part of your company?

18 A Approximately 1100.

19 Q And before I think you were asked if they were
20 employees and you said yes, and I want to make sure you
21 meant that in a technical sense, that they are employees as
22 opposed to independent contractors?

23 A Yes.

24 Q Okay. In other words, you withhold when you pay
25 them?

1 A Yes.

2 Q And you have to pay FICA, you have to pay
3 Medicare, you have to pay FUTA, you have to pay State
4 unemployment compensation, you have to pay Workers' Comp --

5 A Whatever is legally required to -- by way of
6 taxes, yes.

7 Q Okay. Are those type of payroll expenses included
8 in the costs that are laid out in your testimony on page 5?

9 A Yes.

10 Q So that is -- when it says you pay \$56 to the
11 carrier, the carrier doesn't get that \$56 but rather that is
12 your gross payroll expense?

13 A That is correct.

14 Q Do you provide any benefits to employees,
15 retirement, health, vacation, sick leave?

16 A To the carrier force?

17 Q Yes.

18 A No.

19 Q Okay. If you get into this business and try to
20 maximize profit for each of the operating divisions of the
21 group, do you anticipate taking another look at pricing of
22 these, of the delivery service to the non-captive customers?
23 In other words, not your own newspaper necessarily, but to
24 the people who would come to you and want you to carry an
25 insert, do you just charge -- do you anticipate charging

1 those people at your cost, or something more than that?

2 A Something more than that.

3 Q Do you know what that is going to be yet?

4 A There is currently a rate sheet that the company
5 has and it does make a competitive charge, it is still in a
6 competitive market position.

7 Q But if you take a look at page 5 of your
8 testimony, and it indicates that your costs, I think, are 57
9 -- well, let's take for an insert \$6.08 per thousand, would
10 the rate you charge to your non-captive businesses be 6.8
11 cents per thousand or more?

12 A No, it would be more.

13 Q Does your testimony say what that higher amount
14 would be?

15 A No.

16 Q Do you know what that higher amount would be, or
17 what that higher amount is?

18 A I would be making a guess, I just can't recall the
19 rate card.

20 MR. OLSON: Okay. That is all we have. Thank
21 you, Mr. Chairman.

22 CHAIRMAN GLEIMAN: Follow-up? Mr. Straus.

23 FURTHER CROSS-EXAMINATION

24 BY MR. STRAUS:

25 Q In your discussions just now with Mr. Olson, you

1 talked about the charging by the delivery operation to
2 others. Historically, how has the charge been set from the
3 delivery operation to the newspaper operation, has it been
4 at cost or at something above cost?

5 A I don't think I in a position to give a real
6 useful answer to that, given the way the business was
7 previously run.

8 Q So any impression you might have about the
9 profitability of the delivery portion of the business would
10 be relatively uninformed because you wouldn't know how
11 dollars were shifted from one division to the other?

12 A No, no, it isn't -- that isn't how we arrived at
13 the numbers. We arrived at our assumption of the numbers
14 looking at the current cost base of the business today and
15 determining those departmental costs, and then determining
16 revenues. We didn't determine revenues attributable to each
17 department to do a department P&L, we did a P&L for -- we
18 created a P&L for the business as a whole based on our
19 experience of costing and on the costs we could actually see
20 in the business.

21 Q And I think you started out by saying no, but I
22 think you agreed with me that you didn't have a P&L
23 statement just for the delivery in this.

24 A That's correct.

25 Q And, in part, that is because, as you said, the

1 way the dollars were shifted among divisions in the past was
2 not always clear?

3 A That is correct. So we created our own P&L.

4 Q Your concern is that what you are acquiring as a
5 whole was profitable?

6 A That's correct, yes.

7 Q Now, in the future, are you going to be having
8 separate profit centers for the four divisions?

9 A That's correct, yes.

10 Q And who is going to determine how much the
11 newspaper pays to the delivery portion of the business?

12 A Besides me?

13 Q Well, are you the one who will decide?

14 A I will have a voice in the decision.

15 Q Will it be at cost to the delivery division, or it
16 will it be at a markup, the same as it would charge to
17 outsiders?

18 A No, it should be at a markup, the same as we would
19 charge to outsiders.

20 Q But that isn't being done yet?

21 A I have only been there four weeks.

22 Q And you have been here for some of them.

23 A Yes.

24 MR. STRAUS: That is all I have. Thank you.

25 CHAIRMAN GLEIMAN: Is there any further follow-

1 up?

2 [No response.]

3 CHAIRMAN GLEIMAN: There are no questions from the
4 bench.

5 Mr. McLaughlin, would you like some time with your
6 witness to prepare for redirect?

7 MR. McLAUGHLIN: Yes, in fact, if we could take a
8 little bit longer break than normal because I have to do
9 more than just talk to the witness. If we can just take --
10 is this the morning break time?

11 CHAIRMAN GLEIMAN: This has become the morning
12 break time, and, you know, the question is, how much time do
13 you think you need? Is 15 minutes sufficient for your
14 purposes?

15 MR. McLAUGHLIN: I would say 10 minutes. If you
16 want to take 15, that is fine.

17 CHAIRMAN GLEIMAN: I would prefer to take 10 and
18 come back on the hour, and if you run over the 10 a little
19 bit, we will be lenient.

20 Also, let me say that, as I understand it, you
21 have the next witness, Mr. Giuliani -- excuse me, Giuliano.
22 I was going to make him the mayor of New York for a while.
23 He is only the mayor of Advo, which may be more important to
24 some people, I don't know.

25 In any event, I would like to try and get one more

1 witness under our belts before we try and get any food under
2 our belts, so, you know, we will try and do one more witness
3 when we come back.

4 And the reason I am mentioning that is because I
5 know some of you have been sitting around here all morning,
6 and I just want to give you the lineup as I understand it,
7 and that would be Mr. Giuliano, as I said, followed by Mr.
8 Wilson, followed by Ms. Crowder, followed by Witness Bozzo
9 from the Postal Service. Mr. Olson will then have his
10 second go-round with Witness Haldi. And somewhere in there
11 we will figure out when we are going to do Mr. Bentley's
12 witnesses.

13 So I think it will be a while before we get around
14 to some of the witnesses. Did I forget somebody?

15 MR. TODD: I believe you missed Mr. Prescott, who
16 I think is scheduled after Mr. Wilson.

17 CHAIRMAN GLEIMAN: I just flipped through pages
18 real fast looking for names, and I apologize if I forgot
19 someone or missed someone. But Mr. Prescott is in there and
20 he is downstream.

21 The point is that we are going to do another
22 witness and we are going to break for lunch. So if you have
23 a witness that is a couple downstream on the list, you can
24 judge accordingly as to whether you want to sit around for a
25 few more hours, or whether you just want to take a break and

1 come back later on.

2 Mr. McLaughlin, we will give you 10, and a little
3 more if you need it.

4 [Recess.]

5 CHAIRMAN GLEIMAN: Mr. McLaughlin, do you have
6 redirect?

7 MR. McLAUGHLIN: Yes, we do have some limited
8 redirect.

9 REDIRECT EXAMINATION

10 BY MR. McLAUGHLIN:

11 Q Mr. Bradpiece, I'd like to refer you to page 5 of
12 your testimony. That was your cost comparison that counsel
13 for NAA was asking you about.

14 And he noticed that you only showed for your
15 typical paper with eight inserts, you only showed seven
16 inserts in the weight column over there.

17 Have you been able to check into that and see what
18 the problem was on that?

19 A Yes, I have. It was -- I think I referred to the
20 fact that it may well have been a typographical error. I do
21 have with me, my original spreadsheet worksheet which has it
22 at the additional flyer of .24, which brings us up to the
23 6.8, too.

24 So I apologize for not catching that when I was
25 checking through the document.

1 Q Reading off of that spreadsheet there, can you
2 tell us exactly what that spreadsheet -- how that describes
3 the missing typographical omission?

4 A It describes it as retail circular.

5 Q And what weight does it show on that page?

6 A .240.

7 MR. McLAUGHLIN: Mr. Chairman, I don't think we're
8 going to mark up the copies of the original testimony to
9 make this correction to the testimony. It's obviously an
10 oral correction to a typo that was made when it was filed.

11 And if anyone would want to have the original
12 spreadsheet put in the record for any purpose, we'd
13 obviously be willing to do that. I'm not sure it's
14 necessary unless someone insists that they want to have it
15 in there.

16 [No response.]

17 BY MR. McLAUGHLIN:

18 Q With that correction, the results and rates that
19 are shown on that page 5 are correct as shown in your
20 testimony; is that correct?

21 A That's correct.

22 Q Now, you were asked several different, somewhat
23 related lines of cross examination by Mr. Straus about the
24 separate, stand-alone costs and profitability of a private
25 delivery operation by itself, compared to the publication

1 that is delivered by the private delivery operation.

2 If the Maryland Penny Saver were looking at the
3 choice between mail versus private delivery, and you decided
4 to do a private delivery operation, would it be relevant to
5 you whether the private delivery company delivering the
6 Maryland Penny Saver by itself is profitable, or would you
7 be interested in the overall profitability of the Maryland
8 Penny Saver distributed by the private delivery company?

9 A My task as a businessman would be to look at that
10 delivery operation and look to make it profitable in its own
11 right.

12 The reality is that in making a choice between one
13 or the other, I would be looking at what would improve the
14 bottom line.

15 So to the extent that I was running a private
16 delivery business at a loss, but the totality was less of a
17 cost than the cost of mail, then I would still be better
18 off.

19 The issue is the margin. As a businessman, I
20 would be ensuring that the team that was running it were
21 doing their best to make it profitable as a stand-alone in
22 its own right.

23 Q In other words, the bottom line is whether the
24 publication in terms of its total distribution costs,
25 whether it be in mail or whether it be in private delivery,

1 which way is it better off?

2 A That's correct. And that's why with these numbers
3 that we produced, we tried to look at the two costs, the
4 absolute costs as opposed to trying to determine whether one
5 should be a profit center, or one shouldn't be a profit
6 center.

7 Q Likewise, I think there were some questions from
8 Mr. Straus about the fact that there are competitive
9 marketplace risks in starting up a business or in competing
10 in the marketplace.

11 I believe he was saying something to the effect
12 that if an alternate delivery company started up, wouldn't
13 it have those same business risks, competitive risk problems
14 as for your mail business?

15 Can you comment on that?

16 A Yes. And I understood Mr. Straus to be talking
17 about someone else, I think, an alternate delivery business,
18 and to the extent that someone else was setting up an
19 alternative delivery business, they would have the problem
20 to address of where they were going to get the product to
21 deliver.

22 In our case, we already have the product to
23 deliver, so it would be a change, rather than a setting up
24 of a new business. It would be a change from what we're
25 doing now to doing something in a different way.

1 Q So, from your standpoint, the question is, which
2 is the more cost effective distribution alternative, whether
3 it's mail or private delivery?

4 A Yes.

5 Q In that case, you'd be talking about your own
6 private delivery?

7 A Yes.

8 MR. McLAUGHLIN: No further questions.

9 CHAIRMAN GLEIMAN: Is there any recross? Mr.
10 Baker?

11 RECCROSS EXAMINATION

12 BY MR. BAKER:

13 Q Mr. Bradpiece, very quickly, on the correction to
14 the page 5 --

15 A Yes?

16 Q The piece that was omitted, was that a retail
17 circular or a grocery tab?

18 A It was a retail circular.

19 Q And that would account for approximately .24
20 pounds?

21 A Correct.

22 Q So that's almost a quarter of a pound, almost four
23 ounces?

24 A Correct. Well --

25 Q Roughly?

1 A Yes.

2 Q Can you give me an example of what that retail
3 circular would be?

4 A No. My team in Maryland took a copy of the paper
5 and did the weighing, and produced these numbers.

6 Q Would that -- do you know whether that would
7 correspond to about a 48-page tab piece, or do you know what
8 size piece that would be?

9 A No, I can't answer that.

10 MR. BAKER: No more questions, Mr Chairman.

11 CHAIRMAN GLEIMAN: Mr. McLaughlin, anything else?

12

13 MR. McLAUGHLIN: No, Mr. Chairman.

14 CHAIRMAN GLEIMAN: That being the case, Mr.
15 Bradpiece, that completes your testimony here today. We
16 appreciate your appearance and your contributions to our
17 record and you are excused. Thank you.

18 [Witness Bradpiece excused.]

19 CHAIRMAN GLEIMAN: Mr. McLaughlin, would you like
20 to call your next witness?

21 MR. McLAUGHLIN: Yes, Mr. Chairman, we call Vince
22 Giuliano.

23 Whereupon,

24 VINCENT GIULIANO,

25 a witness, having been called for examination and, having

1 been first duly sworn, was examined and testified as
2 follows:

3 CHAIRMAN GLEIMAN: Counsel, you may proceed when
4 you are ready. Counsel, before you proceed, if I could make
5 an inquiry of the Postal Service.

6 Earlier this morning we had some discussions about
7 Witness Bentley testifying on behalf of MMA and also
8 KeySpan, and there was some question about whether the
9 Postal Service would wish to cross-examine later in the day
10 today. Mr. Tidwell.

11 MR. TIDWELL: Mr. Chairman, the Postal Service is
12 able to report that we will have no cross for Mr. Bentley
13 and so that provides us an opportunity perhaps to get him on
14 and off the stand before the lunch break today.

15 CHAIRMAN GLEIMAN: We appreciate that, believe me,
16 we appreciate that at the rate things are going today.
17 Thank you muchly. That is for both MMA and KeySpan? Okay.
18 I just wanted to make sure we are clear on that. Thank you.

19 Mr. McLaughlin, the witness has been sworn. I
20 apologize for the interruption, but in the interest of
21 moving things along expeditiously today, I wanted to find
22 out what the status was on the MMA and KeySpan testimony.

23 DIRECT EXAMINATION

24 BY MR. McLAUGHLIN:

25 Q Mr. Giuliano, I am handing you two copies of

1 testimony captioned "Rebuttal Testimony of Vincent Giuliano
2 on Behalf of the Saturation Mail Coalition." It is
3 designated as SMC-RT-2. I would ask you if this is your
4 testimony in this proceeding?

5 A Yes, it is.

6 Q And was this prepared by you or under your
7 direction and supervision?

8 A Yes, it was.

9 Q Is it true and correct to the best of your
10 information and belief?

11 A Yes.

12 MR. McLAUGHLIN: Mr. Chairman, with that, we would
13 ask that the testimony of Mr. Vince Giuliano, as previously
14 identified, be received into evidence and transcribed in the
15 record.

16 CHAIRMAN GLEIMAN: Is there an objection?

17 [No response.]

18 CHAIRMAN GLEIMAN: Hearing none, counsel, if you
19 would provide two copies of the rebuttal testimony of the
20 witness to the court reporter, I will direct that the
21 material be transcribed into the record and received into
22 evidence.

23 [Rebuttal Testimony of Vincent
24 Giuliano, SMC-RT-2, was received
25 into evidence and transcribed into

evidence.]

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SMC-RT-2

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C.

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY OF
VINCENT GIULIANO
ON BEHALF OF THE
SATURATION MAIL COALITION

Communications with respect to this document should be sent to:

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August 14, 2000

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AUTOBIOGRAPHICAL SKETCH

1 My name is Vincent Giuliano. I am Senior Vice President of Government
2 Relations for ADVO, Inc., reporting directly to the Chairman and Chief Executive Officer.
3 In this position, I deal with all governmental activities that might affect Advo, especially
4 matters concerning postal regulations, services, and rates.

5 Since starting with Advo in 1971, I have worked in a variety of areas in the
6 company's operations. I have been responsible for Advo's government relations
7 activities, focusing on postal-related matters since 1983. I served as Assistant to the
8 President from 1978 to 1983. Before that I served as Director of List Maintenance and
9 List Sales, and was Sales Manager/Senior Account Supervisor responsible for
10 marketing Advo's solo mail services to some of its largest customers. I am familiar
11 with Advo's operations and its marketing of mail services to customers.

12 I have participated in Advo's rate case preparation in every case since Docket
13 R80-1 and presented testimony on behalf of Advo in Dockets R87-1, C87-2, and C89-
14 3. I have long been active in mailing industry associations and organizations.
15 Currently, I am a director and Secretary of Post Com and a member of its Executive,
16 Postal Policy, Public Affairs, and Postal Operations Committees, a member of the
17 Direct Marketing Association's Government Affairs Committee, a member of the
18 Saturation Mail Coalition's Steering Committee, and a member of the U.S. Chamber
19 of Commerce and the Small Business Council. I received a B.A. degree in
20 Economics from St. Michael's College in 1970.

PURPOSE AND SUMMARY OF TESTIMONY

21 Advo has been in the mailing business for more than seven decades. In the
22 last three decades, newspapers have been our primary competitors. Over that time,
23 the marketplace and our business have gone through both evolutionary and

- 2 -

1 revolutionary changes -- often related directly to postal rates which constitute about
2 half of our company's costs. In the highly competitive market in which we and other
3 saturation mailers compete, the level of Enhanced Carrier Route saturation postal
4 rates and particularly the high pound rate are growing concerns. That is why we
5 support the Postal Service's proposed rates, which would slightly moderate the
6 pound rate.

7 Although the Postal Service's proposed ECR pound rate reduction is only about
8 half the size of the (also moderate) reduction proposed in Docket R97-1, the
9 testimonies of NAA witness Tye and AAPS witness White portray it as Armageddon for
10 the newspaper and private delivery industries. The purpose of my testimony is to
11 address their unsubstantiated contentions concerning the alleged impact on
12 newspapers and private delivery, and to demonstrate why their highly generalized
13 allegations are unfounded. In addition I show why the proposed rates are essential in
14 order to permit the Postal Service to maintain its ability to compete for the distribution
15 of preprints and other advertising materials that are part of its core services and why
16 this is beneficial to the Postal Service, its customers, the retail advertising community
17 and to consumers.

18 In Section I, I explain why the dichotomy Tye and White try to draw between
19 "mailers and competitors" is simplistic and inaccurate. Some mailers also own or
20 use private delivery operations, and vice versa; some newspapers use mail for their
21 nonsubscriber TMC programs while others use private delivery. Smaller
22 newspapers, in particular, make significant use of saturation mail for free papers and
23 advertising publications. Shifts between delivery alternatives can and do occur,
24 particularly in response to postal rate changes. Consequently, the beneficiaries of a
25 more rational pound rate are not just traditional "mailers" but also newspapers
26 (especially smaller dailies and weeklies) that use ECR mail.

- 3 -

1 In Section II, I place the proposed pound rate in its proper marketplace
2 perspective, describing the changes that have occurred in the market since 1970,
3 how the excessive pound rate distorts the marketplace, and why this is detrimental to
4 mailers and the Postal Service. I also show that Tye's contention that mail has
5 diverted substantial volumes from newspapers over the last five years is unfounded,
6 and that the swings have been in the other direction.

7 In Section III, I address witness White's mischaracterizations of competition
8 between mail and private delivery, and his unsupported claims of competitive injury. I
9 describe how in White's Oklahoma City market, his daily newspaper/ private delivery
10 combination dominates the market, at least in part because of the high pound rate.
11 Contrary to his claim that private delivery is "disadvantaged" in competing with the
12 mail, I describe the significant advantages that private delivery enjoys -- most of which
13 are related to regulatory constraints that leave mailers with little or no control over the
14 rates or regulations that govern their mailing businesses, in contrast to the
15 substantial flexibility that private delivery companies have to tailor their operations,
16 costs, and procedures to fit marketplace needs.

17 Advo's own experience in private delivery demonstrates the substantially lower
18 costs of private delivery compared to mail -- a cost disparity that, because of the high
19 pound rate, widens as weight increases. Even at the proposed rates, this disparity
20 will be only modestly mitigated, disproving White's allegation that the proposed rates
21 will harm private delivery. I also describe Advo's expanding private delivery operations
22 which have been undertaken primarily because of the high pound rate. I explain the
23 effect that the substantially lower weight-related costs of private delivery have had on
24 Advo's mailed and privately delivered volumes, including reductions in Advo's mailed
25 volumes due to conversion to private delivery.

26 In Section IV, I address witness Tye's contention that "protecting monopoly
27 customers" requires that the cost coverages and rates of the most competitive and

- 4 -

1 price sensitive ECR mail should be increased even further. His logic would force
2 mailers and advertisers out of the mail, eliminating mail as a competitive alternative
3 along with the substantial contribution that this mail makes to institutional costs, to
4 the obvious detriment of "monopoly customers" and the Postal Service. It would turn
5 postal customers into competitors. For advertisers, it would reduce their media
6 choices. And small businesses and consumers would be deprived of the benefits
7 that targeted marketing through direct mail advertising brings to the marketplace.

8 Finally, I explain that Advo continues to prefer mail as its distribution medium of
9 choice, and hopes to use the mail as a vehicle for a number of market expansion
10 opportunities. However, the choice -- whether to expand through the mail or private
11 delivery, or even whether to continue using the mail -- is ultimately a function of the
12 marketplace and, most importantly, postal rates.

I. WHO ARE THE COMPETITORS IN THE MARKETPLACE?

13 The testimonies of NAA witness Tye and AAPS witness White give the
14 impression that there are two distinct groups of competitors for saturation advertising
15 distribution: saturation mailers versus newspapers and private delivery companies.
16 The reality is more complex.

17 Although not mentioned in White's testimony, for many "independent" private
18 delivery companies, the biggest competitor is the local daily newspaper, not mail. For
19 other private delivery companies that are owned by newspapers (like witness White's
20 Delivery Services of Oklahoma which is a division of the daily newspaper publisher),
21 there is no competition with the newspaper. Instead, the newspaper and its private
22 delivery arm in tandem compete with other private delivery companies and mailers.

23 Newspapers, large and small, also make use of ECR mail. While some
24 newspapers like the *Daily Oklahoman* use their own private delivery to distribute their
25 total market coverage (TMC) products, many daily newspapers use ECR high density

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1 mail for their TMC products. Many smaller daily and weekly newspapers rely on ECR
2 mail not only for TMC distribution, but also use ECR saturation mail to distribute free
3 community newspapers and advertising publications. As National Newspaper
4 Association witness Max Heath concluded, referring to NNA-member newspapers'
5 usage of ECR mail:

6
7 "NNA-member TMCs are heavily skewed toward full-coverage
8 (Saturation) on another day of the week than their non-daily
9 [newspaper] product, contrary to the daily [newspaper] operation
10 of TMCs as supplementary to a daily issue. *Saturation mail is*
11 *very important to NNA members.*"

12 ADVO/NNA-T1-1, Attachment at p. 3 (emphasis added); Tr. ____.

13 There is also a mixture of use between mail and private delivery within the
14 saturation mail industry. A majority of shopper publishers use private delivery, but
15 some use ECR mail for a portion of their distribution. Other shopper publishers, like
16 SMC witness Bradpiece (SMC-RT-2), use saturation mail for some of their
17 publications and private delivery for others. Nor is saturation mail the exclusive mode
18 of distribution within the "shared mail" segment of the industry, as evidenced by
19 Advo's private delivery operations. Advo, in fact, is a member of AAPS.

20 Over the years there have been many shifts between these distribution
21 alternatives, mostly motivated by changes in postal rates: daily newspapers have
22 moved into and shifted between mail and private delivery TMC distribution; weekly
23 newspapers (which are much more dependent on the mail) have shifted into mailed
24 TMC and saturation programs; and shopper publications and shared mailers have
25 switched between mail and private delivery.

26 Although not mentioned by witnesses White or Tye, all the newspapers that
27 use ECR mail would benefit from the lower pound rate proposed by the Postal
28 Service. Notwithstanding this benefit, the real interest of the major daily newspapers,
29 in my opinion, is to eliminate saturation mail competition.

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1 For the smaller newspapers that use saturation mail to distribute free
2 community newspapers, TMC products, and advertising publications, the benefit of a
3 lower pound rate is obvious and unequivocal. In fact, the NNA survey data provided by
4 witness Heath in Docket R97-1 showed that (1) these smaller newspapers made
5 greater use of Standard A than Periodicals mail, mostly for nonsubscriber products;
6 (2) over 90% of their Standard A volumes were mailed at ECR rates; and (3) that of
7 those ECR volumes, 70% were saturation mail drop shipped to the destination post
8 office, and 60% weighed above the 3.3-ounce breakpoint. See Tr. 14778, 14781-82,
9 Docket R97-1.

10 Even among the larger NAA-member daily newspapers, a number use ECR
11 high density mail for their TMC products. According to the Postal Service's 1999
12 billing determinants, high density mail is growing more rapidly and has a higher
13 average weight than saturation mail. The lower pound rate will reduce their postage
14 costs. In fact, the Postal Service's proposed rates are more favorable to high density
15 mailers than to saturation mailers. They give the newspapers a substantial cost
16 advantage over saturation mail, allowing them to combine their low, weight-
17 insensitive newspaper insert rates for subscriber households with a reduced ECR
18 pound rate for nonsubscriber households. Saturation mailers must pay the still-too-
19 high pound rate for their entire distribution.

20 In sum, this issue is not about "mailers v. newspapers." A lower pound rate
21 also benefits many large and small newspapers, as well as large and small
22 advertisers. The real issue is about establishing reasonable, cost-based postal
23 rates, as opposed to maintaining artificial pricing barriers whose purpose is to protect
24 competitors.

II. THE MYTH OF "HARM TO COMPETITORS"

25 NAA witness Tye and AAPS witness White assert that the Postal Service's
26 proposed ECR rates, and particularly the modest reduction in the high pound rate, are

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1 a threat to the newspaper and private delivery industries. Those assertions are wrong
2 and misleading. Noticeably absent is any evidence of what has been going on in the
3 marketplace for preprint advertising over the years. The newspaper industry, in fact, is
4 in a stronger position than at any time since the introduction of shared mail in the
5 early 1980s. The private delivery industry is likewise strong and growing, as
6 evidenced by Advo's continuing expansion of its private delivery operations.

A. Historical Perspective

7 Over the three decades that I have been with Advo and involved in postal
8 matters, I have witnessed many changes in the marketplace. To understand the
9 nature of the competitive marketplace today, it is necessary to recognize those
10 changes -- particularly as they relate to postal rates.

11 In the early 1970s, mail was a more dominant choice of advertisers in the retail
12 preprint distribution market, competing with newspapers through the use of solo
13 saturation mail. However, by the mid-1970s, because of large postal rate increases,
14 mail was almost knocked out of the rapidly expanding preprint market. A number of
15 saturation mailers left the mail, some launching private delivery operations that
16 became competitors of the Postal Service. Although Advo stayed in the mail, its
17 volumes plummeted by two-thirds, from 2 billion pieces in 1970 to 680 million in 1978
18 -- at the same time newspaper preprint volumes soared from 3 billion to 28 billion
19 pieces.

20 In the early 1980s, with the introduction of the carrier route presort discount in
21 1978 and particularly the saturation shared mail concept in 1980, mail regained some
22 of the market. The competitive stimulus of shared mail forced complacent
23 newspapers to pay attention to their customers' needs, because new products and
24 services such as TMC programs allowed advertisers to obtain saturation coverage
25 through a combination of newspaper insert distribution to subscribers and mail or
26 private delivery distribution to nonsubscribers. These newly available competitive

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1 price and service choices sparked a large growth in the preprint market. Preprint
2 volumes, both in the mail and in newspapers, grew rapidly. Significantly, a
3 substantial number of the preprints carried in shared mail were what I call "traditional"
4 multi-page preprints that weighed one or more ounces.

5 In the late 1980s, following the large Docket R87-1 rate increase (a 22%
6 increase in the minimum carrier route rate and a larger 26% increase in the pound
7 rate), carrier route mail volumes fell. Newspapers began shifting their nonsubscriber
8 TMC programs out of the mail and into less expensive alternate delivery programs.
9 Private delivery companies sprang up and expanded. Saturation mailers like Advo, on
10 the other hand, curtailed market expansion. In the aftermath of the R87 increases,
11 Advo began to explore private delivery alternatives and undertook several market tests
12 of private delivery operations.

13 The introduction of new worksharing discounts in the Docket R90-1 rate case
14 substantially mitigated what might otherwise have been devastating rate increases,
15 and allowed moderate growth in saturation advertising mail. But spurred by the shift
16 of newspaper TMC programs out of the mail, private delivery operations continued to
17 grow. By this time, it was becoming apparent that the high ECR pound rate was
18 inhibiting Advo's ability to remain price competitive for traditional multi-page preprints.
19 Advo's average preprint weights were declining and have continued to do so, due to
20 the combination of diversion of heavier preprints to non-postal competitors and
21 decisions by other customers remaining in the mail to reduce the sizes of their mailed
22 preprints.

23 Over the past decade, the large disparity between the high ECR pound rate and
24 the low cost of private delivery, coupled with the pressures of the competitive
25 marketplace, have forced Advo to look at the private delivery alternative. Advo
26 launched its first private delivery operation in late 1992 in the Philadelphia market,

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1 both to reduce its distribution costs and to be positioned for further expansion in the
2 event that future postal rate increases threatened its ability to compete.

B. Tye's Claim Of Diversion From Newspapers To The Mail Is Unfounded

3 NAA witness Tye claims that newspapers have suffered substantial
4 diversion of preprint volumes to mail over the last five years because the pound rate
5 has not been increased. NAA-T1-1 at 44-46, Tr. 14734-36. However, he provided no
6 marketplace data to support his contention.

7 In fact, because of the high pound rate, shared mail today is less competitive
8 with newspapers and private delivery for the distribution of traditional multi-page
9 preprints than it was in the mid-1980s. Until the large Docket R87-1 rate increase,
10 Advo's shared mail carried a substantial number of preprints weighing more than an
11 ounce. Because of the pound rate, those heavier preprints are gone. In most cases
12 they were diverted to newspapers as inserts, although in some cases the advertisers
13 reduced the number of pages and weight of their inserts to make it affordable to
14 remain in shared mail (but with the tradeoff of carrying less advertising information).

15 Advo's experience since 1994 belies Tye's claim of diversion of substantial
16 volumes from newspapers. Advo's shared mail volumes peaked in FY 1995 at 3.176
17 billion pieces. In FY 1999, shared mail volume declined to 2.961 billion pieces, a
18 nearly 7 percent reduction. Half of this reduction, as I explain below, is due to Advo's
19 shift of shared mail into its expanded private delivery operations. Advo's preprint
20 insert volumes likewise reflect no diversion from newspapers. In the five years from
21 FY 1994 to 1999, our preprint volumes grew only 5 percent, peaking in 1997 and
22 falling since then.

23 Mail is less competitive today than it was in 1994, in large measure due to the
24 pound rate. As I discuss in the next section, this is a major reason why Advo has

1 become involved in private delivery: to make it more competitive with newspaper
2 distribution.

III. WHITE MISCHARACTERIZES THE COMPETITIVE TRADEOFFS
BETWEEN MAIL AND PRIVATE DELIVERY

3 AAPS witness White tries to portray the private delivery industry as small
4 beleaguered companies struggling to compete against the "unfair" advantages of a
5 monopolistic Postal Service that is attempting to drive them out of business. He also
6 implies, without substantiation, that private delivery companies would be harmed by
7 the proposed lower pound rate. The facts do not bear out his rhetoric. Based on
8 Advo's own experience in the mail and its growing presence in private delivery, it is the
9 Postal Service that is at risk of becoming non-competitive because of the high pound
10 rate.

A The Oklahoma City Market

11 Even in his own market, Oklahoma City, where Distribution Services of
12 Oklahoma (DSO) serves as the private delivery arm for the *Daily Oklahoman*
13 newspaper, witness White declined to provide information about the market share
14 held by the Oklahoman/DSO, and professed to know little about the newspaper's
15 market share and pricing. In fact, the Oklahoma City market is a good example of the
16 dominance of combined newspaper-private delivery distribution.

17 Advo started a shared mail program in the Oklahoma City market in the mid-
18 1980s, competing with the *Daily Oklahoman*. However, our ability to compete was
19 substantially impaired by the large 25% postal rate increase in the Docket R87-1 rate
20 case. Then in 1991, the *Daily Oklahoman* launched a privately delivered TMC
21 program, using its newly created sister company, DSO, to distribute preprints to
22 nonsubscribers to achieve saturation total market coverage. Shortly thereafter, Advo
23 discontinued its Oklahoma City shared mail program. Advo no longer offers a shared
24 mail program and has no sales force in the market. Our only involvement is through a

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1 small independent shopper publication, the Buyers Guide, which distributes some
2 nationally-generated advertising inserts for Advo (mostly single-sheet ads from
3 companies like Blockbuster) and once a month Advo's four-page shared mail wrap.

4 The *Daily Oklahoman*/DSO combination dominates the market, distributing
5 every major multi-page preprint advertiser. As witness White acknowledged, the *Daily*
6 *Oklahoman*/DSO carries a number of preprints that weigh in excess of one ounce,
7 whereas he knew of none carried by competitors. Tr. 22/10032-33.

8 Even with respect to lighter weight pieces -- the one market segment where
9 shared mail can still compete -- witness White mischaracterized the market. His
10 claim that postal rates have driven private delivery out of the market for light-weight
11 pieces (Tr. 22/9986) is disingenuous. In fact, the *Daily Oklahoman's* TMC program
12 includes a substantial number of inserts weighing under one ounce, including single-
13 page inserts weighing a fraction of an ounce. Tr. 22/10044; AAPS-LR-2.

14 This alleged inability of private delivery companies to compete for light-weight
15 pieces is nonsense. Almost all private delivery companies compete by carrying
16 multiple-piece advertising sets, just like shared mailers, shopper publications and
17 newspapers do. Many, if not most, private delivery companies distribute shoppers or
18 newspaper TMC products that serve as the vehicle for carrying multiple preprint
19 inserts. In all these cases, the private delivery company offers advertisers saturation
20 coverage, either by itself or in conjunction with newspaper distribution to subscribers
21 as part of a TMC program. In all cases, these saturation vehicles allow private
22 delivery companies to compete on equal footing with mail for light-weight advertising
23 inserts.¹

¹ White's light-weight claim is based on an apples-to-oranges comparison. The only circumstance where DSO arguably would be "non-competitive" with shared mail would be in the highly unusual case of an advertiser who wanted saturation coverage entirely in private delivery, choosing not to use the newspaper as the vehicle to reach subscriber households. In that case, DSO's delivery to subscriber households would

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B. The Advantages of Private Delivery

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Although not mentioned in White's testimony, private delivery has important advantages over mail distribution. DSO's rate card, for example, touts the "Advantages of DSO Delivery Over Mailing Services and the Post Office," which include "no label or handling charges" and "lower per piece delivery charge." Tr. 22/9982.

Among other advantages:

- Private delivery does not require address labels, avoiding the costs of list maintenance and label production.
- Private delivery involves only minimal preparation and administrative requirements -- far less cumbersome and costly than the complex mail preparation requirements, multiple mailing forms, and postage payment and audit trail documentation required by postal regulations.
- Private delivery eliminates the expense of transporting drop shipped mail to postal facilities, as well as the cost of managing a transportation network and scheduling drop ship appointments. Carriers pick up the delivery materials at the plant.
- Private delivery generally avoids the capital investment and expense of mechanically inserting advertising pieces into shared mail packages, a function usually performed by the private delivery carriers.
- By simplifying or eliminating mail preparation steps and eliminating drop shipment, private delivery can accommodate later deadlines for receipt of preprints from customers, an important competitive consideration for time-sensitive advertisers.
- Private delivery allows total control over service and delivery dates, assuring the ability to achieve delivery on a specific day.

be on a "solo piece" basis, at a higher cost than the normal newspaper/TMC insert rate. But in this case of an advertiser wanting "solo" distribution, the appropriate comparison is the postal rate for solo mail distribution. Yet DSO's published rate for solo distribution, ranging from 7.3¢ to 10.8¢ per piece depending on quantity (Tr. 22/9982), is lower than the Postal Service's lowest proposed saturation ECR rate of 12.0¢ for mail drop shipped to the destination post office.

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1 • Private delivery allows deliveries to be made on Sunday, as Advo does in
2 the Cincinnati market, which is the primary day for newspaper preprint
3 distribution.

4 Another major advantage is that private delivery companies have greater control
5 over their distribution costs, and greater flexibility to adapt their operations,
6 procedures, and prices in response to the market. Because postal rates and
7 regulations are set through regulatory processes, mailers have no control over the
8 rate they pay for mail distribution, or the rules and regulations that dictate their mailing
9 operations.²

10 However, the biggest advantage of private delivery, as I discuss below, is its
11 significantly lower cost in relation to ECR saturation postal rates, particularly due to
12 the high pound rate.

C. Advo's Private Delivery Experience

13 From shortly after its founding in the 1920s until the early 1950s, Advo
14 was primarily a private delivery company. From that time until 1992, Advo used the
15 mails exclusively as its distribution medium of choice. Today, Advo still believes in the
16 efficacy of the mail, and would like to expand its mailing operations. Nevertheless, as
17 a business operating in a highly competitive market, Advo can stay in the mail only so
18 long as postal rates allow it the opportunity to remain competitive and profitable. This
19 is true for all saturation mailers. The high pound rate impairs the competitiveness of
20 mail compared to newspaper and private delivery distribution, and is the major

² Private delivery does have some potential disadvantages compared to mail, but in Advo's experience these are more a matter of perception than reality. Some gated neighborhoods and communities restrict access by private carriers, but in those instances Advo simply uses the mail to reach those addresses. There is also a perception that private delivery results in lower consumer readership due to lack of access to the mailbox, but Advo's internal surveys reveal that in some markets private delivery has higher readership than mail or newspaper advertising. The primary determinant is the quality of the delivery service, not the mailbox.

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1 reason why Advo has entered into -- and is continuing to expand -- its private delivery
2 operations.

1. The Lower Cost Of Private Delivery.

3 At current postal rates, the cost of private delivery is significantly
4 lower than mail delivery. Moreover, because private delivery costs are less weight-
5 sensitive, the cost disparity widens as mail piece weight increases.

6 In our private delivery operations, the distribution cost for a 4-ounce package is
7 less than 12¢ per package, or \$120 per thousand.³ This includes the total delivery
8 cost plus all costs for inserting preprints into the package, plastic bags, and carrier
9 supervision. In contrast, at current rates for saturation mail drop shipped to the
10 destination post office, the postage cost alone is 13.725¢ or \$137.25 per thousand --
11 not including the additional costs for (1) address labels, (2) mechanical insertion of
12 preprints into the package, (3) bundle and facing slips, and other documentation
13 requirements imposed by postal regulations, and (4) drop ship transportation, all of
14 which are avoided in private delivery.

15 For an 8-ounce package, the postal versus private delivery cost differential
16 widens substantially. In private delivery, the total distribution cost is less than \$170
17 per thousand. The current postage cost alone, excluding the other additional mail-
18 related costs mentioned above, is \$271.50 per thousand. In private delivery, a
19 doubling of the piece weight results in only about a 40% increase in distribution cost
20 (and in many cases substantially less). But in the mail at current rates, this doubling
21 of weight results in a 98% increase in postage -- effectively doubling the cost.
22 Moreover, for this 8-ounce piece, the postage cost alone is 60% greater than the *total*

³ Advo's actual private delivery costs vary by market, and are confidential. The above figures represent the high end of our private delivery costs.

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1 distribution cost in private delivery. The disparity widens even further as weight
2 increases.

3 I would emphasize that even at the Postal Service's proposed rates, the
4 modestly lower pound rate would still leave a significant disparity compared to private
5 delivery and newspaper distribution. Under the proposed rates, the postage cost
6 would become \$140.50 per thousand for a 4-ounce piece, and \$253.00 for an 8-
7 ounce piece. A doubling of weight would still result in a large 80% postage increase
8 -- a cost/weight ratio that would still be about twice as high as the ratio in private
9 delivery, but at least moderately lower than the irrational 98% ratio under current rates.
10 Moreover, the postage cost alone for the 8-ounce piece would still be almost 50%
11 higher than the total private delivery cost,.

12 This, of course, explains why the allegations of harm by witnesses Tye and
13 White are couched in generalized assertions (such as Tye's claim that the proposed
14 rates will "continue to divert mail" from newspapers, Tr. 14732 and following).
15 Noticeably missing are any supporting cost data or concrete evidence of harm. As the
16 above comparisons show, even at the proposed rates, mail distribution will still pay a
17 substantial cost premium over the competitive alternatives. Those rates cannot
18 possibly cause any major shift in the marketplace. Rather, they will allow a moderate
19 reduction in the currently distorted cost relationships, enable mailers to stem volume
20 erosion and once again compete at the margins for a segment of the market. In
21 addition, by marginally narrowing the cost disparity between mail and private delivery,
22 they will lessen the necessity for mailers to convert to private delivery and become
23 Postal Service competitors.

2. Advo's Private Delivery Initiatives.

24 Advo's initial involvement in private delivery came in late 1992 in
25 the aftermath of the Docket R87-1 rate increase. Advo acquired a private delivery
26 company in Philadelphia, and initially provided both shared mail and private

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1 distribution in the same zones, using private delivery to distribute heavier preprints
2 that Advo could no longer compete for in the mail due to the high pound rate. Advo
3 has since converted its shared mail program in these overlapping zones into the
4 private delivery operation, which now serves 775,000 homes weekly. In 1993, Advo
5 expanded its private delivery operations to the Boston market, which currently serves
6 200,000 homes weekly. In mid-1995, Advo acquired a private delivery company in
7 Cincinnati, and has since converted a substantial part of its shared mail volume in
8 that market to private delivery, reaching 650,000 homes weekly. In January of this
9 year, Advo launched private delivery in the central New Jersey market, converting
10 distribution to 350,000 homes weekly from the mail to private delivery. In February,
11 Advo converted distribution to 300,000 homes in the Denver market from mail to a
12 TMC program with the *Denver Post* newspaper. In total, Advo's private delivery
13 operations currently serve 2.3 million homes weekly.

14 In each of these markets, Advo has shifted shared mail out of the postal
15 system and into private delivery. Since 1994, Advo's privately delivered volumes have
16 nearly tripled to more than 120 million pieces annually, while our shared mail
17 volumes have declined by 120 million pieces -- a 4% reduction in postal volume.
18 Privately delivered volumes now constitute about 3.7% of Advo's total shared mail
19 program distribution.

20 These conversions to private delivery have had a number of positive effects for
21 Advo. No longer constrained by the high postal pound rate, Advo has been able to
22 compete successfully in those markets for a share of the mid-to-heavier weight multi-
23 page preprints that had been priced out of the mail. Our privately delivered volumes
24 average 40% more preprint inserts per package than our mailed volumes, and those
25 privately delivered preprints have a higher average weight than those in the mail. In
26 fact, the mailed preprints have declined in weight over the last six years, due to the

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1 high pound rate. Although private delivery accounts for 3.7% of Advo's total shared
2 mail volume, it accounts for a larger 4.7% of our preprint volume.

3 These markets have become more profitable to Advo as a result of their
4 conversion to private delivery, due to the combination of the lower distribution cost of
5 private delivery and the enhanced ability to compete for heavier traditional preprint
6 volumes. Overall, these conversions to private delivery have saved Advo millions of
7 dollars annually in distribution costs, all of which has gone directly to Advo's bottom
8 line, substantially enhancing our company's profitability.

9 For the Postal Service, the result has been a corresponding loss of high-
10 contribution saturation mail volume. The impact of this diversion on the Postal
11 Service is greater than the volumes alone imply, because our private delivery
12 operations tend to be concentrated in the lowest-cost, easiest-to-deliver areas of
13 these markets. In higher-cost delivery areas within these markets, such as outlying
14 areas with longer distances between deliveries, Advo continues to use the mail. This
15 is precisely what common economic sense suggests: that the volumes most
16 vulnerable to diversion are the lowest cost volumes that provide the highest
17 contribution to Postal Service institutional costs.

IV. "MONOPOLY CUSTOMERS" WILL BE HARMED, NOT "PROTECTED" BY
FURTHER INCREASING THE RATES FOR COMPETITIVE ECR MAIL

18 At the current pound rate, private delivery is an increasingly attractive alternative
19 to the mail. I am not suggesting that shifting to private delivery is an easy undertaking,
20 or that it can be entered into quickly. To be effective, a private delivery operation must
21 provide a high quality of reliable delivery, must be well-managed, and must have
22 stringent quality controls. One of the advantages of mail is that the mailer does not
23 have the demanding task of managing a delivery network. Another advantage is that
24 the mail system is a universal, six-day-a-week service (although Sunday service can
25 only be accomplished through private delivery). Compared to private delivery, a mailer

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1 can more rapidly enter or exit markets, expand or contract its geographic coverage,
2 and change or add delivery days. These are the reasons why Advo's expansion of
3 private delivery has been selective and carefully planned. To be successful, private
4 delivery must be done right. But that can be done.

5 For these reasons Advo is willing to pay some reasonable premium for mail
6 service. All else being equal, Advo would much prefer to focus its efforts and energies
7 on its traditional advertising marketing and mailing business, rather than entering the
8 delivery business. But the current premium, particularly the high pound rate, is
9 excessive and out of balance with the marketplace -- a fact well known by our
10 newspaper and private delivery competitors, who want to maintain and even increase
11 the artificial postal pricing barrier that insulates them from competition. Depending on
12 where postal rates head in the future, private delivery may, unfortunately, become a
13 business necessity not only for Advo but for significant segments of the saturation
14 mail industry.

15 Ironically, NAA witness Tye argues that ECR mail should be hit with an even
16 higher cost coverage and higher rates in order to "protect monopoly customers" by
17 "increasing the contribution from competitive classes such as ECR." Tr. 14742. He
18 claims this will also "arrest the past increases in volume of competitive classes due
19 to diversion" from non-postal competitors. Given the fact that saturation mail is price
20 sensitive and faces substantial competition, and because saturation postal rates are
21 near or at the point where a shift to private delivery becomes feasible, Tye's "solution"
22 for "protecting monopoly customers" will have the opposite effect. Even higher rates
23 will force that mail out of the system -- either by diverting advertisers to newspapers
24 and private delivery competitors, or by causing mailers themselves to leave the postal
25 system and become competitors of the Postal Service. Neither outcome is in the best
26 interest of "monopoly customers" or the Postal Service's universal delivery system.
27 What the Postal Service needs -- at a time when it is facing inevitable non-price-

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1 related diversion of core mail volumes due to changing technology -- is the opportunity
2 to generate new volumes of profitable mail in all of its product categories, including
3 First Class mail.

4 This also exposes witness White's claim that all AAPS is seeking is a "level
5 playing field." What NAA and AAPS are really seeking is to maintain an artificially high
6 pound rate to insulate competitors from effective competition. The best way to set
7 rates that are fair to both mail users and competitors is to make them cost-based.
8 The current high pound rate is not only not cost-based, but has the effect of turning the
9 USPS's best customers into competitors

10 Advo wants to expand its shared mail operations, and we strongly prefer to do
11 so through the mail rather than private delivery. We are currently considering a
12 number of potential market opportunities to expand existing market coverages, add
13 second weekly programs in existing markets, and enter new markets, because of an
14 unmet demand in the marketplace. The major impediment to these initiatives is
15 postal rates, and especially the pound rate. That is why we must continue to explore
16 the possibilities of expanded private delivery.

1 CHAIRMAN GLEIMAN: Two parties have requested oral
2 cross-examination, AAPS and Val-Pak/Carol Wright. Is there
3 anyone else?

4 Mr. Baker, I'm sorry, we must have missed your
5 piece of paper again.

6 MR. McLAUGHLIN: Mr. Chairman, I would like to
7 raise a matter. In the testimony of NAA Witness Wilson, he
8 makes certain statements about pricing by Advo in the Miami
9 market, and he also makes certain statements about Advo's
10 Philadelphia private delivery operation.

11 Mr. Giuliano is here and has investigated those
12 statements, and I would offer some brief direct examination,
13 if that is permissible to do. The problem we have here is
14 we have a witness who has knowledge and information on those
15 statements.

16 CHAIRMAN GLEIMAN: I am fairly lenient in terms of
17 procedures, but, you know, there has been opportunity for
18 direct testimony and there has been opportunity for rebuttal
19 testimony. In the absence of some cross-examination that
20 would enable you to bootstrap the information, and I don't
21 mean this in a negative way, but in the absence of some
22 cross-examination of the witness by the parties who plan to
23 cross him that would enable you to move that information
24 into the record on redirect, I am not sure at this stage of
25 the game how we get it into the record.

1 MR. McLAUGHLIN: Well, I guess we will just wait
2 to see whether any of the cross-examining parties wish to
3 ask Mr. Giuliano about Advo's pricing decisions and its
4 prices in the Miami market.

5 CHAIRMAN GLEIMAN: Well, we will find that out
6 sometime early this afternoon.

7 Is there anyone other than AAPS and Val-Pak/Carol
8 Wright who wishes to cross-examine, and counsel for the
9 witness who wishes to cross-examine the witness?

10 [No response.]

11 CHAIRMAN GLEIMAN: If not, then the two parties
12 who had indicated -- or three parties, excuse me, Mr. Baker,
13 you also are in the mix, the three parties who have
14 indicated that they wish to cross on the rebuttal testimony
15 will do that, and we will start with AAPS. Mr Straus.

16 MR. STRAUS: Thank you.

17 CROSS-EXAMINATION

18 BY MR. STRAUS:

19 Q Mr. Giuliano, about pricing in the Miami -- oh,
20 never mind.

21 [Laughter.]

22 MR. McLAUGHLIN: Will the transcript reflect the
23 first three letters of Miami on that?

24 MR. STRAUS: I couldn't resist, I'm sorry.

25 BY MR. STRAUS:

1 Q Mr. Giuliano, does the SMC believe that the
2 present ECR piece rate is lower than warranted?

3 A Is it lower than warranted? The present ECR piece
4 rate could be lower.

5 Q Well, I am not sure that answers my question.
6 Does it believe that the ECR piece rate is lower than
7 warranted today?

8 A I interpret your question to me can it be lower
9 and I --

10 Q I would rather you answer it the way I asked it.
11 I think yes or no would probably work. Is it lower -- is it
12 today lower than warranted?

13 A No.

14 Q Does Advo believe that the ECR piece rate is lower
15 than warranted?

16 A No.

17 Q What percentage of the SMC member volumes are
18 mailed at the piece rate?

19 A I don't know a percentage.

20 Q Did the SMC Steering Committee ever try to find
21 out the mailing profile of its membership?

22 A I don't know.

23 Q Aren't you on the Steering Committee?

24 A I am on the Steering Committee, but I don't know
25 that we went and did a profile of each of the members.

1 Q Well, could it have been done without you knowing
2 it?

3 A It might have been, I don't know the answer to
4 that.

5 Q Well, who would have initiated such a study if not
6 the Steering Committee? Is there an executive director of
7 the SMC?

8 A It would have been -- the committee would have
9 been -- it would have been among Mr. Dick Mandt, or Mr.
10 Norman Schultz or Pete Gorman.

11 Q I am still troubled, you say it is possible that
12 such a study was done and you as a member of the Steering
13 Committee didn't know about it, is that your testimony?

14 A I don't -- you asked me if we know how many --
15 what percentage of the SMC volume is at the ECR rate, and I
16 don't know that answer, what percentage of all the members
17 of the -- there are some 60 members, I don't know what the
18 totality is at the ECR rate.

19 Q Well, I asked about the piece rate, but we are
20 past there now, we are trying to find out whether, in fact,
21 SMC ever tried to find out what its mailing profile was.
22 And I think you said you don't know whether it ever tried to
23 find out.

24 A I don't.

25 Q And then my question to you was, if it did try to

1 find out, wouldn't you know about that, wouldn't Advo have
2 been asked, as part of the SMC?

3 A If they did, I probably would have been asked,
4 yes, but I wasn't asked.

5 Q So you would surmise then that no effort was made
6 to determine the mailing profile of the membership?

7 A I can't say that no effort was made. I said I
8 just don't know.

9 Q But the fact that you don't know about it pretty
10 much leads you to conclude it wasn't done, right?

11 A No. I mean that entity has a lot of -- does a lot
12 of work. The membership is active, so, you know, I am not
13 sure what it would do.

14 Q Well, tell me something about the structure of
15 this committee then. There is an Executive Committee -- a
16 Steering Committee on which you serve, is that right?

17 A Yes.

18 Q And that has five or six people, as we heard from
19 Mr. Bradpiece?

20 A Yes.

21 Q And is there somebody above you on an
22 organizational chart above the Steering Committee?

23 A The active participants on that are the three
24 gentlemen that I named, there is Mr. Mandt and Gorman, and
25 Schultz.

1 Q But not you?

2 A No.

3 Q Could you briefly just tell who those three
4 gentlemen are?

5 A Pete Gorman is with Hart-Hanks Pennysaver in
6 California. And Dick Mandt is with the Flyer in Tampa,
7 Florida. And Norman Schultz has a mail company here in
8 Maryland. I don't know, I forgot the name of the company.

9 Q Does the committee have employees?

10 A Employees? No.

11 Q And it has regular meetings?

12 A It has meetings when there is, you know, events
13 like the rate case going on and when the members need to
14 talk about the case or its positions in the case.

15 Q And is it incorporated?

16 A I don't know that.

17 Q And it would be fair to say, wouldn't it, that
18 Advo is the single largest funder of the committee?

19 A No.

20 Q Would you agree that the dues are small and
21 voluntary, as Mr. Bradpiece stated?

22 A Yes.

23 Q And everyone pays the same amount?

24 A No. It's voluntary and the amount is voluntary.

25 Q But Advo's voluntary contribution is not the

1 largest?

2 A No, it is not.

3 Q And does the SMC fund the rate case out of those
4 dues revenues, its participation in this case?

5 A I believe it does, yes.

6 Q You would know, wouldn't you? You are on the
7 steering committee. You ought to know where the money is
8 going and where it is coming from?

9 A Well, the dues are being used for that purpose,
10 yes, sir.

11 Q Is Advo making an in-kind contribution of, for
12 example, counsel?

13 A No. Counsel is being paid separately by SMC.

14 Q Your testimony begins on line 21 on page 1 with
15 the word "Advo" and throughout it discusses Advo.

16 You don't discuss any of the other members of the
17 SMC. Is that because -- tell me why that is.

18 A It is in being able to rebut the two witnesses.
19 The best way to rebut it would have been from my perspective
20 and my knowledge of the marketplace, so that is why I use it
21 from the perspective of Advo.

22 Q Is it your testimony -- let me start again.

23 Advo's ability to compete today depends upon a
24 number of circumstances including postage rates, isn't that
25 right?

1 A Postage rates is one of them. Yes.

2 Q And if postage rates remain unchanged, would it
3 follow that Advo's ability to compete remains largely
4 unchanged?

5 A No.

6 Q Why is that?

7 A Because the marketplace is very dynamic. The
8 marketplace is continually evolving and improving.

9 The company -- our company and the companies we
10 compete with are serving the retail industry and the
11 retailers or service providers or package goods
12 manufacturers are continually demanding better ways of
13 getting their advertising to market, so it could be
14 improvements in the techniques of marketing. It could be
15 having better psychographic data, better demographic data,
16 better mapping, better ways of serving, better ways of
17 informing a customer about delivery.

18 There's a number of things that you do and the
19 service you provide that distinguish you between your
20 competitors, so there's more than just postage rates.

21 Q Well, I understand that but I mean let's go back
22 to Dr. Haldi's holding everything equal. Your competitors
23 are also out there having to do all those things as well,
24 but let's put it the other way.

25 If your postage rates went up, your ability to

1 compete would go down, wouldn't it?

2 A Yes.

3 Q And if postage rates went down, your ability to
4 compete would go up?

5 A No, not necessarily, because the competitors that
6 we compete with also use, some of them use the postage --
7 the Postal Service -- and their rates would be going down as
8 well.

9 Q As to your competitors who don't use the Postal
10 Service, would your ability to compete go up?

11 A If the postage rate was to go --

12 Q Down.

13 A Again it depends on the quality of service that we
14 are up against.

15 Q We are holding everything equal. I mean isn't
16 that why you want lower rates, so your company will do
17 better? There is nothing wrong with that.

18 A No, it's nothing wrong. We want lower rates -- I
19 mean it's to get better cost based rates, and then have
20 those rates be able to be competitive with other products.

21 Q You are in a certain competitive position today
22 and you want lower rates because that would improve your
23 competitive position. Why are you so reluctant to say that?

24 A No, I mean it does, it would --

25 Q Okay.

1 A -- of course, it would.

2 Q In fact, you say at page 2, line 23 to 24, shifts
3 between delivery alternatives can and do occur, particularly
4 in response to postal changes. Do you see that?

5 A Yes.

6 Q So that is saying that if postal changes favor
7 postal versus an alternative, the postal people win, and if
8 the postal rates go up and favor the alternatives then the
9 alternative people win, isn't that right?

10 A That could be, yes.

11 Q That is what you are saying there? The volumes
12 will shift depending upon postal rates. That's your
13 words -- "shifts between delivery alternatives can and do
14 occur, particularly in response to postal rate changes."

15 A Yes.

16 Q Now if in fact postal rates were to be reduced or
17 were to be reduced compared with the costs of other goods
18 and services or to be relatively reduced and those shifts of
19 volumes that you say would occur do in fact occur, and if
20 some of those volumes come from alternate delivery
21 companies, that would hurt those companies, wouldn't it?

22 A Yes, it could. It also depends on the actual
23 change in rates and whether those change in rates --

24 Q Well, what I was talking about was whether the
25 loss of volumes hurts the provider of volumes and that

1 doesn't depend upon anything other than whether it is better
2 off with less volume.

3 A Okay.

4 Q So the shift that you say will happen if postage
5 rates go down will hurt alternate delivery providers, isn't
6 that right?

7 A It depends on the amount -- for instance, the way
8 I say that is the small shift that would happen as a result
9 of this little, modest reduction in the pound rate would not
10 have any effect, for instance, in our alternate delivery
11 programs where we have it.

12 We are not going to shift volumes out of our
13 alternate delivery programs back into mail. There would
14 have to be a dramatic, dramatic reduction in postal rate to
15 make those items shift, and I think the same thing would
16 have to occur in, you know, in Mr. White's area. If there
17 was a dramatic drop in pound rate, then maybe that would
18 happen, but not the small, modest reduction.

19 Q Advo is not sending out advertisements in its
20 own -- other than its detached label. It is not Advo
21 advertisements that are going out there, is it?

22 A Generally no. It is not.

23 Q So the fact that Advo may or may not shift
24 something between one of its two alternative means of
25 reaching a consumer doesn't necessarily tell us what a guy

1 with a local department store would do?

2 A No, but those products, those advertising pieces
3 that we carry in our alternate delivery program, if this
4 change was to occur, like I said, there should be movement
5 then as well between those alternate delivery programs that
6 we have and back into the mail.

7 The advertiser may be, you know, wanting to shift,
8 but the rate reduction isn't significant enough in this case
9 to make any of those shifts, dramatic shifts.

10 Q Do you know how many pieces the Postal Service
11 forecasts would shift, based upon its elasticity studies?

12 A No, I don't.

13 Q Some would shift?

14 A I guess there would be some shift, but I don't
15 know what it would be.

16 Q And if you're an alternate delivery company that
17 loses a significant weekly insert, that could be a
18 significant harm; couldn't it?

19 A Again, it depends on -- yes, it could wind up
20 being significant harm, but it depends on what the shift is.

21 You know, Advo's got a -- we have 107 million
22 pieces of private delivery. There is 800 to a billion
23 inserts in those private delivery packages.

24 We're not forecasting -- with this shift, we're
25 not forecasting any of those advertisers to shift from

1 private delivery to mail in our ultimate delivery programs.

2 The change in pound rate is not significant
3 enough.

4 Q Your testimony says at page 3 that you describe
5 significant advantages of private delivery?

6 A Where are you?

7 Q Page 3, line 12.

8 A Yes.

9 Q Are the numbers of private delivery companies in
10 the country growing rapidly based upon those advantages?

11 A To answer, I think there is growing private
12 delivery, but when I use private delivery, just so we -- I'm
13 using it for a saturation, private delivery program.

14 There's other forms of private delivery which are
15 selective distribution. I'm talking about, you know -- I
16 think that there's growing need for service from alternate
17 delivery companies for saturation delivery.

18 Q You're talking about the need; my question was is
19 the number of companies in the business growing?

20 A Number of companies? Well, I don't know any
21 absolute number of companies. If there was an absolute
22 number of companies, it at least shrunk by three because
23 Advo bought three of them.

24 But I don't know the exact number.

25 Q This is not an industry that's replete with

1 mergers and acquisitions, is it, where companies in various
2 cities are getting together?

3 A No. You know, one way to look at that, to get at
4 that number of people serving alternate delivery, may be the
5 Association of Free Community Papers. There's about 50
6 percent of the membership of those papers that have their
7 products delivered in alternate delivery.

8 But if you looked at circulation numbers, you
9 know, the majority of them are in mail; the majority of
10 circulation is in mail, not in private delivery, and that's
11 because there's several of their members have such large
12 volume it skews the total circulation.

13 But the overall percentage of membership is about
14 50 percent in mail and 50 percent in saturation private
15 delivery.

16 Q I almost hesitate to ask the question, but not
17 completely, but you didn't read the SAI Report; did you?

18 A No, I didn't.

19 Q Was it Demosthenes searching for the wise man?
20 Can Advo tailor its operations to fit marketplace
21 needs?

22 A Tailor its -- yes, it can.

23 Q Can it tailor -- can it tailor its procedures to
24 fit marketplace needs?

25 A Yes, it can.

1 Q So, when you say that private delivery companies
2 can do that and that's an advantage, those are no advantages
3 that Advo itself doesn't have; are they?

4 A It would be -- they would be similar advantages
5 for both of us.

6 Q So mail and alternate delivery both can do the
7 same thing, so neither person has an advantage?

8 A Well, the advantage comes from the quality of the
9 product that you deliver. If you have the supervision and
10 the quality control, if those are equal, then the service
11 could be equal for both.

12 Q You say that Advo is a member of AAPS, and I
13 looked through the directory and I didn't see the name, Advo
14 there. Could you help me out?

15 A It probably says the Door Store.

16 Q Oh, so the Door Store is a member of AAPS?

17 A Yes.

18 Q What about Advo's other alternate delivery
19 operations, are they members?

20 A Beacon was a member. We bought Beacon up in
21 Boston. I don't know if we continued the membership there,
22 but I could find out for you.

23 Q The directory is a Library Reference, so it's
24 already available. We'd just look under the name, Beacon;
25 is that right?

1 A Yes, that was the company that we had bought.

2 Q Why didn't you change the Door Store name to Advo?

3 A Because the -- I think it's because Door Store was
4 in existence for such a long period of time in Cincinnati
5 that it had its own local recognition by the residents.

6 Q You say at page 7 that the private delivery
7 industry is strong and growing, and you point to Advo as
8 proof.

9 Do you have any other evidence that the alternate
10 delivery industry is strong and growing?

11 A Again, it's by observation. I look at the
12 Reminder Papers in Connecticut and they are privately
13 delivered and they keep adding areas of circulation.

14 And I know that Harry Buckle, Mr. Buckle, when he
15 had Newport Media, shifted some of his circulation over to
16 private delivery, saturation private delivery.

17 Q And you also know, don't you, that a number of
18 major newspapers have shifted in the other direction for
19 their TMC products?

20 A Yes, and that's a good point, because that's the
21 other type of private delivery that I'm talking about.
22 They're not saturation based; they are the selective
23 distribution, the less-than-saturation, and that's much more
24 difficult to deliver and the cost for delivering it is much
25 more than the saturation form.

1 So that's why I think some of those shifts are
2 occurring.

3 Q You've talked about several times in your
4 testimony, and again this morning about Advo's entry into
5 the alternate delivery market in 1992 and how it's grown.

6 Does Advo consider that alternate delivery is an
7 important part of its future?

8 A We consider it -- yes, we do, we consider it an
9 important strategic direction that we may have to go in.

10 We have a task force, a working task force now
11 looking at other areas for us to expand into, either
12 ourselves or other systems to buy.

13 Q I have here a copy of Advo's Annual Report for
14 1999. I assume you've read it?

15 A Not every word.

16 Q Well, there's a management roundtable discussion
17 here, Advo and the New Millennium, a Management Roundtable.

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19 subject to check, if you have any other Advo people here who
20 can look through this while you're on the stand, that
21 nowhere in this Annual Report is there any mention at all of
22 alternate delivery?

23 Would you accept that, or do you want to check it,
24 or do you know that for a fact?

25 A I don't know for a fact that it says that. But if

1 you say that --

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3 it, subject to check, and I'm offering a copy of it to
4 whoever it is you might have in the room with you to check
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8 Q Are you familiar with Advo's website?

9 A Again, I know it's there. I don't know how to
10 access it.

11 [Laughter.]

12 BY MR. STRAUS:

13 Q It's www.advo.com. That should come as no big
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15 Well, I've got here in front of me, and I'll be
16 happy to give you a copy --

17 [Pause.]

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20 Roundtable for the New Millennium never mentions alternate
21 delivery as any kind of an enterprise for Advo, strategic or
22 otherwise.

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24 website.

25 [Pause.]

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2 Choice for Response-Oriented Retailers and Other
3 Advertisers. And it mentions direct mail, it mentions
4 United States Postal Service, it mentions shared mail, but
5 it never mentions alternate delivery; would you accept that?

6 A Yes.

7 Q Now, let me give you another page from the
8 website. The heading on this is Why Advo Works. And it
9 discusses the households and making decisions based upon
10 advertising and coupons.

11 A Dramatic shifts.

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13 forecasts would shift, based upon its elasticity studies?

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10 website. The heading on this is Why Advo Works. And it
11 discusses the households and making decisions based upon
12 advertising and coupons.

13 Would you accept that this never mentions
14 alternate delivery?

15 A Yes.

16 Q Once again, another sheet, two pages. This time
17 the heading is "Advertising Solutions," and after some text
18 it says shared mail and solo mail. It talks about how many
19 households you reach with mail, and that it never mentions
20 alternate delivery, would you accept that?

21 A Yes.

22 Q Advo's alternate delivery is now 3.7 percent of
23 its total distributions, is that right?

24 A Yes, 107 million packages a week -- a year, a
25 year.

1 Q And so in eight years from 1992, the rate of
2 movement from mail to alternate delivery has been less than
3 one-half of 1 percent per year?

4 A Well, if that is what the calculation comes out.

5 Q Well, do you agree that is what the calculation
6 comes out?

7 A Okay.

8 MR. McLAUGHLIN: Excuse me. What was the figure
9 again? What were you comparing?

10 MR. STRAUS: Well, Mr. Giuliani -- Giuliano,
11 excuse me, testified that the alternate delivery is 3.7
12 percent of the total, and that alternate delivery has been
13 going on since 1992. So I divided 3.7 percent by eight
14 years and came up with less than half a percent a year, and
15 he agreed with the math.

16 THE WITNESS: I mean that happens, but Advo, over
17 that period of time, you know, we didn't get into alternate
18 delivery all at once in 19 -- you know.

19 BY MR. STRAUS:

20 Q I understand. Eight years later you have moved
21 3.7 percent.

22 A We have made a very careful, slow, methodical
23 undertaking getting into alternate. This is not something
24 you just, you know, just decide I am going to do this. You
25 have to understand, really understand alternate and get it

1 -- if you are going to do it, you had better do it right.
2 And we got in there and really learned about the product and
3 have been slow, yes, but very deliberate to learn as much as
4 we can about it.

5 Q Is Advo also expanding its mail programs?

6 A Yes, we are. As a matter of fact, we just started
7 a second program in two markets, Albuquerque, New Mexico,
8 and Reno, Nevada.

9 Q Are you sure it is not Las Vegas?

10 A Oh, I'm sorry. Las Vegas. Thank you.

11 [Laughter.]

12 MR. STRAUS: You're welcome.

13 THE WITNESS: You really do read our --

14 MR. STRAUS: I was making up everything else.

15 [Laughter.]

16 THE WITNESS: Well, we have started two second
17 programs, the weekend programs in those two markets.

18 BY MR. STRAUS:

19 Q And that is the extent of your expansion in this
20 past eight years?

21 A We may have undertaken some other new markets. I
22 don't know them off the top of my head, but I know we have
23 done other kinds of new ventures with other advertisers.

24 Q Let me hand you a copy also from your web site,
25 but I have also obtained it elsewhere, but Advo press

1 release dated June 6, 2000, the caption of which, the
2 headline of which is "Advo announces establishment of a
3 second weekly mailing program in Las Vegas."

4 Now, I am directing your attention to the final
5 paragraph, which is basically on the first page, and there
6 Advo gives a self-description as the nation's largest full
7 service, targeted direct mail marketing services company
8 with revenues over \$1 billion, et cetera. It says you
9 specialize in shared and solo direct mail. In that
10 description of Advo here, is there any mention of alternate
11 delivery?

12 A No, there is not.

13 Q On page 9 of your testimony -- you are intrigued
14 by the press release, I see.

15 A Okay. Page 9?

16 Q Page 9, yes. Can you cure for me what appears to
17 be a discrepancy? Line 17 of page 9 says that Advo's shared
18 mail volume in Fiscal Year 1999 declined to 2.961 billion
19 pieces, yet the annual report for 1999 says it is 3.043 --
20 3.044 million pieces, as does your web site. Let me hand
21 you --

22 MR. McLAUGHLIN: Excuse me. Are you referring to
23 mailed pieces or total pieces?

24 MR. STRAUS: Well, the testimony says shared mail
25 volume declined to 2.961. The web site says 3.044 shared

1 mail packages. It is the same term used in both places, but
2 the numbers are different and I am just trying to get Mr.
3 Giuliano to explain the difference.

4 BY MR. STRAUS:

5 Q I can give you the annual report, too, if you
6 would like that.

7 A I need to check this to verify it, but my initial
8 impression is that this is talking about shared mail volume
9 and this is talking about all packages that we have put out,
10 and it has the -- this might include the alternate delivery
11 number.

12 MR. McLAUGHLIN: Mr. Chairman, rather than having
13 confused cross-examination, and doing redirect later on, I
14 think that this can be clarified very quickly right now in
15 case Mr. Straus has some other questions to go along. If I
16 could just ask the witness one question to clarify what that
17 number represents.

18 MR. STRAUS: That's fine with me.

19 VOIR DIRE

20 BY MR. McLAUGHLIN:

21 Q Mr. Giuliano, in Fiscal '99, is it correct that
22 Advo's private delivery volume was 83.4 million pieces?

23 A In 1999, our private delivery was 83.4 million.

24 Q And if you took that 83.4 million and you added it
25 to the 2.961 billion, would that give you a total of 3.044

1 billion?

2 [Pause.]

3 THE WITNESS: Yes, it does.

4 CHAIRMAN GLEIMAN: How many fewer questions do you
5 now have to ask, Mr. Straus?

6 MR. STRAUS: Zero.

7 CHAIRMAN GLEIMAN: Mr. Giuliano, when your counsel
8 tells you that is what it adds up to, you have go to trust
9 him.

10 [Laughter.]

11 CHAIRMAN GLEIMAN: The answer is subject to check.

12 THE WITNESS: I should be more trusting.

13 FURTHER CROSS-EXAMINATION

14 BY MR. STRAUS:

15 Q And how many pieces were in those 3 billion shared
16 mail packages? Or if you have the number, how many pieces
17 were in the 2.961 billion mailed shared mail sets?

18 A I think it would be on this document that you gave
19 me where we have -- there is 25,603,000,000. There were
20 8.41 shared mail pieces per package.

21 Q So the number of separate advertisements that were
22 mailed by Advo, if we include the alternate delivery portion
23 which is in here, would be over 25 billion pieces?

24 A Yes.

25 Q Does this count your detached label as a piece?

1 A I believe it does.

2 Q Could you let us know if it doesn't?

3 A I will let you know about that.

4 Q You were here when Dr. Haldi testified this
5 morning, weren't you?

6 A Yes.

7 Q Never mind, I won't go any further with that. Why
8 didn't you go into alternate delivery in Las Vegas instead
9 of adding a second mail program if, as you say, alternate
10 delivery is so much less expensive than mail?

11 A Well, I think the reason is we are serving the
12 unmet need of retailers. And the retailers in the Las Vegas
13 market wanted to have an alternative delivery system
14 quickly. And the fastest way to set that up was through the
15 mail program, and we did -- we responded and put that in
16 place for them.

17 Q They wanted an alternative delivery system
18 quickly. Do you mean an alternative every day, is that --

19 A Well, what they had was their alternatives was
20 newspaper insert on weekends, and they would have preferred
21 to have another method of reaching the customer. They want
22 -- what they really want is saturation coverage around the
23 stores in their location, and they weren't able to get that.

24 Q Are there any alternate delivery companies in Las
25 Vegas that are members, like you are, of AAPS?

1 A There might be, I don't know.

2 Q Did you negotiate with that alternate delivery
3 company to delivery outside the mail for a lot less money
4 than you would spend in the mail?

5 A I wasn't part of the team there that decided that
6 in Las Vegas.

7 Q But whoever was on the team must have thought
8 about and looked at the possibility of alternate delivery
9 and chose mail, isn't that right?

10 A They could have. They could have. Yes.
11 Obviously, they did because --

12 Q We are sure they chose mail.

13 A We are sure of that.

14 Q And we are sure that Advo, as a successful
15 company, would have looked at the alternatives before
16 jumping into another delivery day in the mail, wouldn't it?

17 A Yes.

18 Q I am curious about one thing you say on page 12 of
19 your testimony, lines 17 through 19. You say, an advantage
20 of alternate delivery is that it avoids the capital
21 investment and expense of mechanically inserting advertising
22 pieces. You are saying that it is an advantage to do the
23 work manually rather than to do it on an automated basis?

24 A It avoids us as a company having to put in place a
25 large mechanized facility.

1 Q Advo could do it manually, couldn't it?

2 A No.

3 Q Why?

4 A Well, --

5 Q It is more expensive, isn't that why?

6 A We did that at one time, we don't want to go back
7 there.

8 Q Well, why did you change? You changed because it
9 was less expensive to put in the equipment than to have
10 people, isn't that right?

11 A Of course, it was. If you are going to --

12 Q Then why isn't it --

13 A If you are going to do it yourself. But in the
14 case of our alternate delivery programs, the independent
15 carriers put it together.

16 Q They are being paid to do it. Somebody gets paid
17 to do it. You are saying it is an advantage to be so small
18 or so unsophisticated that you do things manually instead of
19 with machines.

20 A Well, where the advantages comes is you don't have
21 to put in a 200,000 square foot -- if we want to service the
22 Richmond market with an alternate delivery program, I would
23 not have to go down there and put in a 200,000 square foot
24 facility to do that, or 150,000. You can open up a 40,000
25 square foot facility and do it without any mechanized

1 equipment, without having to make a capital investment,
2 without having to have inventory for parts.

3 Q Why couldn't Advo go mail and still do it by hand?
4 Why would you have to build the 200,000 square foot
5 mechanized facility?

6 A Well, part of the reason for mechanizing is that
7 you are combining enormous quantities in short timeframes.
8 Again, serving the retailers' need. They are delivering
9 pieces to us, you know, just a couple of days before we need
10 to mail it or ship it out, and we only -- you need the
11 immense fire power of mechanization to put together those
12 massive numbers each and every week.

13 Q Oh, then you are saying that alternate delivery
14 doesn't have the firepower, can't respond as quickly, and,
15 therefore, it is still an alternative not to be able to
16 respond as quickly?

17 A No, contrary. We look in Philadelphia, --
18 Philadelphia, our packages have the greatest number of
19 inserts per piece -- per package, and the turnaround is even
20 higher, but yet we are able to do in an independent
21 contractor and vendor relationship, and it is done without
22 mechanization.

23 Q Well, I think you had better go to your task force
24 and sell all of your mechanized equipment and hire a bunch
25 of people to do the work. You say that Advo can stay in the

1 mail, this is on page 13, only as long as Postal rates allow
2 it the opportunity to remain competitive and profitable. Is
3 Advo today competitive and profitable?

4 A Yes.

5 Q So that at today's Postal rates, you are
6 competitive and profitable?

7 A Yes.

8 Q In fact, Advo is showing record profits, isn't it?

9 A Yes, we are.

10 Q Isn't it true that Advo has had record profits for
11 16 consecutive quarters?

12 A Yes, we have. Would you like to know why?

13 Q Because it is making more each quarter?

14 A No, no. I mean the whole process of those 16
15 consecutive quarters started over a period, a long period of
16 time, and it goes back about five, six years when we looked
17 at reengineering the company, on all aspects. And we
18 started first with the customer. What does the customer
19 want?

20 Q It was customer first, as I recall, wasn't it? Or
21 that is the Postal Service?

22 A That is the Postal Service.

23 Q You had a similar catch phrase.

24 A Yeah, triple S satisfaction. But we started first
25 with the customer. Wanting to know what they wanted. Then

1 we completely reengineered everything in the company. I
2 mean, for instance, production. We went to -- we upgraded
3 the machinery and got to a higher, faster throughput.

4 Q Just think how much more you would have made if
5 you had done it manually?

6 A But we cut, you know, five years ago Advo was
7 almost 5,000 employees, today we are 3,800. We can do
8 things better, faster. We have outsourced our IT
9 department. We have taken our billing and centralized it.
10 We have taken a lot of cost in the system and removed it,
11 and at the same time being able to service the customer
12 faster and better.

13 Q You recall Mr. Bradpiece's testimony about profit
14 as a percentage of revenues for -- I don't remember the
15 entity, but -- well, isn't it true that Advo's profit as a
16 percentage of revenues for the third quarter were 29.8
17 percent?

18 A For the third quarter?

19 Q 29.8. Let me show you a press release.

20 A We have a good third quarter.

21 Q That is the third paragraph on that first page.

22 A What it says here is the company continued to post
23 record margin results as well. Third quarter gross margin
24 as a percentage of revenue, 29.8 percent, improved 1.1
25 percentage points over the prior year.

1 Q And in that same third quarter, didn't Advo
2 expense \$2.2 million of a consulting contract to its former
3 chairman?

4 A Yes.

5 Q Why was that expensed in one quarter?

6 A I don't know. That is for -- the accounting boys
7 do that, I don't know.

8 Q Was it because the consulting contract was
9 terminated?

10 A It could have been, I don't know the exact reason.

11 Q Let me give you another page from the Advo web
12 site.

13 This page is captioned "About Advo" and there is a
14 list of things that it does. It specializes in mail and
15 distributes ShopWise and how many people it reaches, but
16 then at the bottom there's a statement, "Some of our
17 satisfied clients include" and there's a bunch of corporate
18 logos there -- could you identify those satisfied clients
19 and tell us whether they are still your clients?

20 I would like you to read them into the record.

21 A It says Pier 1 Imports, K-Mart, J.C. Penney, CVS
22 Pharmacy, WalMart, McDonald's, Ace, Pizza Hut, Sears, KFC,
23 Safeway and Burger King.

24 Q Are these all Advo clients today?

25 A I don't know to answer you 100 percent.

1 Q Well, they probably were recently.

2 A They probably are.

3 Q So Advo was able to obtain national retailers as
4 clients?

5 A Yes -- as well as small, local clients.

6 Q At the beginning of page 14 you discuss the
7 distribution costs for your private delivery operations.
8 What costs did you include in that 12 cents per package?

9 You say there are total delivery costs plus all
10 costs for inserting plastic bags and carrier supervision.
11 That would be the extent of it?

12 A It is supposed to include virtually -- I mean this
13 includes all our costs for putting out the alternate
14 delivery program.

15 Q What?

16 A That is the high end.

17 Q You don't include any overhead in here. You don't
18 include any management in here. You don't include any
19 auditing in here. You don't include any sales costs in
20 here. You don't include any taxes in here.

21 This would be sort of the incremental cost of
22 delivering the piece once you have a business operation
23 ongoing, right?

24 A I think it includes all of our costs.

25 Q Well, it doesn't say so. It says total delivery

1 cost plus inserting plastic bags and carrier supervision.

2 You are saying now that it includes -- it is a
3 fully loaded cost of an alternate delivery operation?

4 A This is what I had ask to have verified and what
5 was our highest cost for delivering, completing -- you know,
6 stand-alone, being able to deliver this, put this ultimate
7 delivery product out.

8 Q Well, doesn't it strike you as strange they would
9 list such detail as plastic bags and carrier supervision but
10 not list all of the other expenses I just itemized for you?

11 A I wasn't, you know, trying to make a laundry list
12 of every single item in the world to put in there.

13 Q You didn't develop this number yourself?

14 A Well, no. I went to our people who run the
15 alternate delivery and I asked them what is our, you know,
16 cost for -- our high cost for these, on our markets for
17 putting out an alternate delivery program, include
18 everything.

19 Q Including the facilities?

20 A Including the facilities, including the fulltime
21 workers that are there that are, you know that are at the
22 facility to receive the copy, to separate the copy, to
23 prepare it for the carriers.

24 Q What do you pay the carriers?

25 A I don't know the exact number that we pay the

1 carriers but it varies, the pay varies market by market.

2 Q You gave this example as being the high end of
3 your private delivery cost. Is this your most expensive
4 market? Is that what it means, the "high end of our private
5 delivery costs"?

6 A Yes.

7 Q And what do you pay the carriers in that market?

8 A I don't know the cost on that and ask for an
9 individual breakdown on every element.

10 Q Do you pay the carriers more if they are more
11 pieces than if there are fewer pieces?

12 A It depends on the market.

13 Q In that market?

14 A Yes, it does. Our --

15 Q No, no, in the market we are talking about here --

16 A Okay.

17 Q -- if there are more pieces than if there are
18 fewer pieces?

19 A This market I believe is a flat rate for the
20 carriers.

21 Q But you don't know what that rate is?

22 A No.

23 Q Again you think that the stand-alone costs of
24 operating a delivery network in this, your highest cost
25 market, is \$120 per thousand?

1 A Yes.

2 Q And anyone could go in and set up a delivery
3 operation for that?

4 A In these markets that we are in, yes. Now if you
5 wanted to set this up, you know, in New York City there
6 could be a different cost, but --

7 Q But faced with this 12 cents, all-inclusive cost,
8 fully loaded, setting up stand-alone, Advo still decided to
9 go mail in Albuquerque and Las Vegas?

10 A In those two markets that was our choice.

11 Q And what was your cost there to mail?

12 A It's the postage plus whatever, if there's any --
13 plus whatever the piece rate is -- I mean the piece weight
14 if it is over the pound.

15 Q So you are willing to pay more for postage than it
16 would cost you to do with alternate delivery?

17 A Oh, yeah, and I think I say somewhere in my
18 testimony here that Advo is willing to pay a premium for the
19 mail portion because it has certain advantages, namely that
20 you can mail a piece from anywhere, you can enter markets
21 quickly, or you can cut down your mail quantities quickly.

22 Q Footnote 3 on page 14 says that Advo's private
23 delivery costs by market are confidential. Why?

24 A It's an internal business expense, something that
25 we have been developing over the last several years in

1 understanding alternate delivery and what it takes to
2 undertake the effort.

3 Q Nobody is asking for your intellectual property.
4 I am just saying what your bottom line cost to deliver is --
5 why is that confidential?

6 A I mean we have in a sense given you the bottom
7 line costs. Our cost of putting out an alternate delivery
8 program is about 12 cents a package.

9 Q Well, you certainly didn't give us much of a
10 breakdown. You don't know what you pay your carriers.

11 You are not 100 percent convinced that this is a
12 fully loaded cost. You said that you asked for it --

13 A I asked for that.

14 Q -- but you never checked to see if it was, and you
15 say in this footnote that the costs vary by market and are
16 confidential and now you are saying they are not
17 confidential?

18 A The actual individual breakdown of it I would
19 think would be confidential, yes.

20 Q In any particular market. You don't want to tell
21 us what your costs are in the Boston market versus the
22 Philadelphia market?

23 A No, I don't exactly want to --

24 Q If you had an operation in Oklahoma, say in
25 Oklahoma City, you wouldn't want to tell what those costs

1 were either, would you?

2 A No.

3 Q I didn't think so. When you shifted material from
4 mail to alternate delivery, what did you do with the price
5 charged to advertisers?

6 A What we are able to -- the result of having an
7 alternate delivery program in the market is that we are able
8 to take the lower costs of alternate delivery and with the
9 higher costs for these areas that a customer is mailing to
10 we can give them a blended rate. We can use the lower costs
11 of alternate delivery to lower the costs of what they would
12 pay in the postal delivery area.

13 Q So you have passed on some of those savings?

14 A Oh, yes -- passed on in the sense that in order to
15 be competitive in that marketplace we had to come up with a
16 way of delivering the product that would be comparable to
17 the price of what --

18 Q I'm saying --

19 A -- so the way to do that would be to have an
20 alternate delivery program that is lower cost, take the
21 lower cost of that alternate thing and blend it in and make
22 a lower rate.

23 Q Were there people who were just receiving service
24 in the area covered by alternate delivery who aren't using
25 your postal product at all? When you converted an area from

1 postage to alternate delivery, didn't you stop mailing the
2 product and start hand delivering it?

3 A No.

4 Q What did you do?

5 A For instance, in Cincinnati we have about 670,000
6 households that are delivered primarily on Sunday and, well,
7 there's 650,000 that are private delivered and another
8 22,000 packages that in the more expensive areas go out by
9 mail. That happens four times -- it happens weekly that we
10 have that alternate delivery program, and then twice a
11 month, every other week, we have a 750,000 mail program that
12 is delivered on Tuesday-Wednesdays, a midweek program.

13 That was -- that was the weekly mail program. We
14 cut that back to every other week.

15 Q So you didn't take the geographic area that used
16 to get mail and it no longer gets mail and now gets
17 alternate delivery?

18 A No. Some households get both.

19 Q No household was shifted from mail to alternate
20 delivery?

21 A No.

22 Q From exclusively mail to exclusively alternate
23 delivery?

24 A In the case of Cincinnati, no.

25 Q I'm not talking about Cincinnati; I'm talking

1 about your conversions. In Cincinnati, you bought an
2 existing, ongoing alternate delivery enterprise.

3 A That's right.

4 Q I'm speaking about where you converted to
5 alternate delivery.

6 A In Philadelphia, we converted, and there was a
7 mail program that was converted to alternate delivery.

8 Q So some advertisers who used to be in the mail now
9 wind up in alternate delivery?

10 A Yes.

11 Q Did you reduce your rates to those advertisers,
12 your prices to those advertisers to reflect the lower costs
13 of alternate delivery?

14 A I think the general answer to that question is
15 yes.

16 Q Well, if the general answer to that question is
17 yes, that you passed on the cost savings, can you explain
18 the testimony at page 17 beginning at line 6 where you say
19 that the conversions to private delivery have saved Advo
20 millions of dollars annually in distribution costs, all of
21 which has gone directly to Advo's bottom line, substantially
22 enhancing our company's profitability?

23 Now, you can't have passed them on to the
24 consumers and passed all of them down to your bottom line.

25 A Well, that presumes that we -- is taking -- that

1 the -- that the costs that we originally were charging the
2 customer --

3 Q Well, you charge prices.

4 A The price, the price we're charging customers
5 because of mail was the same in the alternate delivery, and
6 it's not.

7 Q You told me you reduced your prices to the
8 advertisers who shifted.

9 A Yes, we did.

10 Q Well, then how could you put all of your savings
11 into the bottom line? Didn't the advertisers get some of
12 them in the form of lower prices?

13 [Pause.]

14 I'll withdraw the question, and the record will --

15 A There are too many zip code combinations and
16 whatnot in customers to make a general statement like that.

17 Q On page 19, you state that Mr. White claimed to be
18 seeking a level playing field. Is that what Advo seeks?

19 A Oh, yes, we do.

20 Q Is the playing field now level?

21 A No.

22 Q Well, you know, Advo is making record profits on
23 this playing field, and I'll leave you with the thought
24 which is that the playing field in the Colosseum was level
25 but the lions always won, and it looks like Advo is doing

1 quite well on this one.

2 MR. STRAUS: That's all the questions I have.

3 THE WITNESS: You have to take that in context. I
4 mean, when you -- record profits for Advo, I mean, that's in
5 relationship to Advo. What you really need to do is to take
6 that in context of the whole industry, and if you want to
7 compare record profits with the newspaper industry, I'll
8 gladly put that in the record.

9 MR. STRAUS: Well, the 29.1 percent margin was in
10 the record.

11 CHAIRMAN GLEIMAN: Mr. Baker, there can't possibly
12 be any more questions to ask.

13 MR. BAKER: In my case, there's not.

14 CHAIRMAN GLEIMAN: Thank you, Mr. Baker. Mr.
15 Olson?

16 MR. OLSON: There can be and there are, but I will
17 try to be mercifully short.

18 CROSS EXAMINATION

19 BY MR. OLSON:

20 Q Mr. Giuliano, William Olson, representing ValPak,
21 how are you?

22 A Fine.

23 Q Let me just start with what you finished up with
24 Mr. Straus on, and some of the illustrations. You talked
25 about Cincinnati being an area where you had 670,00

1 households delivered on a Sunday, and then you said, I
2 think, you mailed 22,000; is that correct?

3 A Yes, in addition, there are 22,000 that are mailed
4 to the outlying areas that are higher cost to deliver.

5 Q So those would be the areas with less
6 concentration, where it wasn't as inexpensive to put out
7 a private delivery force and deliver those pieces?

8 A Correct.

9 Q And is it the pattern in other places as well,
10 that there are certain households that are more expensive
11 and those tend to be mailed?

12 A Yes, it is.

13 Q Okay.

14 Now, take a look at page 14 where you talk about
15 the 12 cents per package. I know that you haven't
16 identified where that is, but if the 12 cents is a loaded
17 cost, would we draw the conclusion that then the person
18 doing the delivery would be paid less than that; in other
19 words, maybe 10 cents apiece, even though you said you
20 didn't know the rate you were paying carriers?

21 A Yes, it would be an amount less than that.

22 Q Okay.

23 Do you happen to recall the number of delivery
24 stops on a Postal Service route?

25 A I have heard that it's around 475.

1 Q At around 475, if you pay, say, 10 cents a packet,
2 how much would one of your employees make in a day?

3 A Ten cents time 475 is \$47.50 or something like
4 that.

5 Q Do you think that might be reflective of the kind
6 of daily rate earned by a person working for one of the
7 alternative delivery companies?

8 A I don't know in generalized terms. I know that
9 there are families that make the -- there's one family in
10 particular in Cincinnati that happens to be a large family
11 that makes the whole income off of delivering just once a
12 week.

13 Q Well, just limiting the question to individuals
14 rather than families, is that as good as we can do from what
15 we know in terms of judging what someone might make on a
16 daily basis?

17 A I guess so, with the, you know, figuring that it's
18 400. But I think that even our routes are a little bit
19 larger.

20 Q A little larger than 475?

21 A Yes.

22 Q Do you know what that number is?

23 A No, but I can find that out for you.

24 Q I hate to turn down a volunteered bit of
25 information.

1 CHAIRMAN GLEIMAN: Can you find that out for us
2 and let us know by close of business tomorrow?

3 MR. McLAUGHLIN: We can try. It would depend on
4 catching the right person in this other city that's
5 available at the right time to get the information. Since
6 it's not like it's in Vince's office, that's the only
7 possible hangup, is you may not be able to catch the person
8 you need to talk to.

9 But we can certainly try.

10 CHAIRMAN GLEIMAN: Well, if at all possible.

11 MR. McLAUGHLIN: The other question is when we'll
12 be able to get in touch with him today.

13 CHAIRMAN GLEIMAN: Well, during lunch, because
14 you're going to cross examine the next witness, so I'll
15 guess you'll have to do it during lunch.

16 BY MR. OLSON:

17 Q Let me ask you to look at page 5 of your testimony
18 on line 14. You have a phrase there -- I think this might
19 have been the subject of some earlier cross -- that says
20 that a majority of shopper publishers use private delivery;
21 do you see that?

22 A Yes.

23 Q Is that based on a survey that you conducted for
24 Saturation Mailers Coalition or by Advo?

25 A That happens to be from -- I mean, information

1 that I know from the shopper industry.

2 And that I know that more than half of the members
3 of the shopper industry use private delivery.

4 Q Is that through an association you're a member of?

5 A Yes, it's the -- I believe it's the Independent
6 Free Shoppers Association.

7 Q And so they did a survey and concluded this?

8 A They know that of their membership.

9 Q And you're a member of that association?

10 A No, I'm not.

11 Q How would you know, out of curiosity, what they
12 know within their industry?

13 A Because they have some -- they publish some
14 information about it. I've seen in -- I believe I've seen
15 it in a newsletter.

16 Q So that's the source -- you recall seeing it in a
17 newsletter?

18 A Yes.

19 Q Okay. Let me ask you to look at page 12. The
20 last bullet says, private delivery allows total control over
21 service and delivery dates, assuring the ability to achieve
22 delivery on a specific day.

23 Do you have that?

24 A Correct. Yes.

25 Q By that statement, do you mean that the private

1 delivery companies owned by -- well, forget the one just
2 owned by ADVCO, but private delivery companies offer
3 delivery six days a week?

4 A They could do it seven days a week.

5 Q Do they -- the ones owned by ADVCO -- the one you
6 had to do with -- the one you described was Cincinnati, and
7 I think you said there it was Sunday every week and twice a
8 week Tuesday or Wednesday; was that correct?

9 A In Cincinnati, the every-other-week program on
10 Tuesday, Wednesday, is a mail program.

11 Q Oh. I'm sorry. So Cincinnati is only once a week
12 on Sundays?

13 A Correct.

14 Q In terms of private delivery?

15 A Correct.

16 Q Okay. And for some of the other cities that ADVO
17 owns facilities in, they delivery seven days a week?

18 A No. In the other markets of Boston, Philadelphia
19 and northern Jersey, those are Friday/Saturday delivery
20 days, and in Denver, it's Wednesday.

21 Q Okay. So none of them the ADVO-owned companies
22 offer more than two days a week delivery; is that correct?

23 A At this time, that's correct.

24 Q When you say Friday/Saturday, does that mean
25 whichever is most convenient to the person doing the

1 delivery and it's in essence one day a week, but it could be
2 on Friday or Saturday, or are you talking about two separate
3 packages that go out, one on Friday and one on Saturday?

4 A No. It's delivered on either of those two days
5 depending on the carrier capability.

6 Q So in that case, that would be a one-day-per-week
7 in essence -- it's either Friday or Saturday?

8 A Yes.

9 Q Okay. In the cities of Philadelphia and Boston
10 and Cincinnati, does ADVO solicit delivery business from
11 other companies that do saturation advertising or is it
12 pretty much handling its own work?

13 A Well, in Cincinnati and Boston, it's ADVO doing
14 its own work. In Philadelphia, the system that we utilize
15 there has about 30 percent of the deliveries are made by
16 independent carriers, of which -- I mean independent
17 contractors of ADVO. The other 70 percent of the deliveries
18 are -- we contract with a vendor and there's three different
19 vendors that we use in Philadelphia. They put the material
20 together, they take care of the delivery for us, and they
21 also go out and solicit business from other parties. ADVO
22 is just one customer of them.

23 Q Okay. How about central New Jersey? Which way
24 does that work?

25 A That works also as being a vendor operation that

1 can deliver for other customers.

2 Q For the employees that work for ADVO as opposed to
3 these joint ventures with other delivery companies, do the
4 people typically work as -- I take it, then, from what you
5 said about delivery dates that people are part-time
6 employees rather than full-time employees, correct?

7 A Yes. In Cincinnati, in Boston, they tend to be
8 families that subcontract, do the work.

9 Q And are they employees or independent contractors,
10 as we talked to Mr. Bradpiece about?

11 A Whatever the correct legal --

12 Q Whatever the law requires?

13 A The law requires. But we have some employees that
14 -- in those facilities that we -- that are fully employed by
15 ADVO to do some alternate delivery work, supervisors, the
16 quality control people.

17 Q That are full-time employees.

18 A Yes.

19 Q But the vast bulk, I take it, of the delivery
20 force would -- if they work Friday or Saturday, that's all
21 they work a week?

22 A Correct.

23 Q And it is your testimony, is it not, that you
24 don't have information you can give us about the wage rate
25 you pay those part-time carriers, correct?

1 A Correct.

2 Q In no market, none of the areas -- central New
3 Jersey, Cincinnati, Philadelphia, et cetera?

4 A Right.

5 Q Okay. And I'm not sure what you said there about
6 employee versus independent contractor. You're saying you
7 don't know whether they're employees or independent
8 contractors, employees where you have to withhold on them
9 and pay FICA and Medicare? You don't know which they are?

10 A Well, there's a small number of employees that are
11 full-time employees. The majority of them I believe are
12 these independent contractors or -- by whatever status, but
13 they're not full-time employees of ADVO.

14 Q Okay. But they are -- I think the IRS has some
15 rules here that -- I wouldn't begin to try to explain, but I
16 think you can be a part-time person and be required to be an
17 employee, and you're saying you really don't know if the
18 part-time people are employees or independent contractors?

19 A I don't know that.

20 Q Okay. And do you know if they're provided any
21 benefits, such as retirement or sick days or vacation or
22 health benefits, anything like that?

23 A I don't know that, either. But if you want to
24 know, I'll ask.

25 Q It's like in the Army -- you're never supposed to

1 volunteer, but once you do, if something is easy to do and
2 comes up at the same time, it might supplement the record
3 and be useful for the Commission. But that's -- that would
4 be up to you and counsel. That would be a nice thing to add
5 onto the other, but it's not critically important if it's
6 difficult to obtain.

7 MR. OLSON: Thank you, Mr. Chairman.

8 MR. McLAUGHLIN: Mr. Chairman, if that is a
9 request, obviously we'll do that.

10 In this case, though, unlike the prior request,
11 which involved calling one person at one place, this would
12 involve calling all of the different places to get the
13 different information. I think I know the answer, but I
14 obviously am not positive and can't testify.

15 CHAIRMAN GLEIMAN: Well, it wasn't clear to me
16 whether it was a request or not. It was sort of "I could
17 find out" offered up.

18 MR. OLSON: Well, it was a question which the
19 witness said he didn't know but could get the information
20 on. I'm simply -- I don't want to put an enormous burden on
21 ADVO. If some information can be provided, for example,
22 from the one that you're contacting otherwise, perhaps you
23 could provide that. Frankly, I would allow counsel to
24 testify; I'm sure he does know.

25 MR. McLAUGHLIN: Well, I think I do know the

1 answer, but I can't testify.

2 MR. OLSON: He could stipulate to the answer,
3 however.

4 CHAIRMAN GLEIMAN: He may know what the answer
5 should be, but he may not know the answer.

6 [Laughter.]

7 MR. McLAUGHLIN: No, I was involved in some
8 conversations.

9 We can certainly check with the individual that we
10 would be calling for that earlier information to find out
11 the status in that particular operation. There again, I
12 think I know the answer in that particular operation.

13 CHAIRMAN GLEIMAN: Well, if you can get it for us,
14 fine; and if you can't get that bit of information, then
15 apparently --

16 MR. OLSON: Mr. Chairman, if I could take a leaf
17 out of Mr. Straus' book and say if there are other than
18 independent contractors who do not receive benefits, let us
19 know. Would that be fair?

20 MR. McLAUGHLIN: Okay. Except that Mr. Jiuliano
21 did indicate that there were some employees.

22 So, in other words, if these other individuals
23 aside from the few Mr. Jiuliano was talking about are
24 independent contractors, there's no need to respond further;
25 is that correct?

1 MR. OLSON: Correct.

2 CHAIRMAN GLEIMAN: Is there any follow up?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.
5 Questions from the bench? No questions from the
6 bench.

7 Would you like some time to prepare for redirect?

8 MR. McLAUGHLIN: Yes, and I hate to ask for ten
9 minutes, and I may be able to get by with less than that. I
10 do have several questions I want to go over with the
11 witness.

12 CHAIRMAN GLEIMAN: Well, we'll give you ten, and
13 hopefully we'll finish up quickly after that with the
14 witness, and then we'll get Witness Bentley's two pieces of
15 testimony in the record, and then we'll break for a short
16 late lunch.

17 [Recess.]

18 CHAIRMAN GLEIMAN: Mr. McLaughlin.

19 MR. McLAUGHLIN: Yes, we're ready.

20 REDIRECT EXAMINATION

21 BY MR. McLAUGHLIN:

22 Q Mr. Jiuliano, at the very start of this cross
23 examination, Mr. Straus asked you a number of questions
24 about the Saturation Mail Coalition. Can you clarify for
25 the record how many people are on the steering committee?

1 CHAIRMAN GLEIMAN: Can you flip your microphone
2 on, please.

3 THE WITNESS: There's about eight or nine people
4 on the steering committee.

5 MR. McLAUGHLIN: Mr. Chairman, we could read the
6 names into the record. I'm not sure it's necessary.

7 BY MR. McLAUGHLIN:

8 Q He also asked whether there were meetings or
9 things like that of the SMC. Does the SMC have annual
10 meetings?

11 A Well, we had two -- we had meetings that coincided
12 with the postal forums, and then there are telephone
13 conferences and meetings that take place.

14 Q Have we had -- excuse me -- has the Saturation
15 Mail Coalition had several meetings in Washington this year?

16 A Yes, it has.

17 Q As well as a variety of conference calls?

18 A Yes.

19 Q You were asked by Mr. Straus whether you had seen
20 the SAI report, and you said you had not. Do you know --
21 have you checked to see whether anyone from SAI to your
22 knowledge has ever contacted ADVOC concerning its private
23 delivery operations?

24 A I have not seen the SAI report, but when I heard
25 about it, I asked -- I went to the alternate delivery

1 companies and asked them if they were surveyed, if anybody
2 from SAI had called them, and the companies said no, except
3 for Cincinnati, the woman recalled having seen a
4 questionnaire, but she threw it out.

5 Q And what is ADVO's volume of advertising in
6 private delivery?

7 A We have --

8 Q Advertising inserts.

9 A We have 107 million packages. There's about 800
10 billion inserts. We're running about 5.5 pieces preprints
11 per package in alternate delivery and we run about 3-1/2
12 pieces, 3.2 pieces of preprints in our regular mail
13 packages.

14 Q In addition to the preprints, you also carry
15 non-preprint advertising volume, too; is that correct?

16 A That's correct. We have single sheets.

17 Q Mr. Straus also questioned you about what he
18 called your gross margin, citing figures from ADVO's third
19 quarter report. The figure he gave was a 29.8 percent
20 figure, which is described as a gross margin. Is that the
21 same as an operating margin?

22 A No, it's not.

23 Q Does that same document indicate that for that
24 quarter, ADVO's revenues were 295.8 million?

25 A If I still have -- if you say so, that's okay.

1 MR. McLAUGHLIN: Let me show the witness.

2 THE WITNESS: Can he show it to me so I can say
3 yes?

4 CHAIRMAN GLEIMAN: I told him how to answer those
5 questions from you before.

6 [Laughter.]

7 THE WITNESS: I haven't done the calculation
8 myself.

9 BY MR. McLAUGHLIN:

10 Q Perhaps to simplify it, can you just simply read
11 from that press release, the ADVO press release, the
12 operating revenue and the operating income.

13 A The revenues were 295.8 million. The operating
14 income was 28.2 million.

15 Q Does that equate to a 9.5 percent operating
16 margin?

17 A If that's what you calculated, yes, it is.

18 Q Do you think a typical newspaper would consider a
19 9.5 percent operating margin to be a good margin?

20 A It would be anemic.

21 Q Is that ADVO's record margin?

22 A ADVO -- for ADVO, this is a record period. The
23 newspaper industry is much more, they're double-digit
24 income, sometimes even higher.

25 Q In terms of operating margin.

1 A Operating margins are much higher.

2 Q There was some discussion about the cost data for
3 private delivery that you provided on page 14 of your
4 testimony, and the question in particular was whether these
5 costs that you show there are fully loaded in the sense that
6 they include every conceivable cost that you have in having
7 a stand-alone private delivery operation.

8 Are those, in fact, the -- have you had a chance
9 to double-check that information as to whether those include
10 all costs that you would have for a pure stand-alone private
11 delivery company?

12 A We've got to check that.

13 Q Let me put it another way. Was the purpose here
14 to illustrate the difference in cost between ADVO's choice
15 of using private delivery versus using the mail?

16 A Of course it's a -- it shows a comparison, the
17 difference --

18 Q And so, for example, if ADVO has sales expenses,
19 it incurs those sales expenses whether it uses mail or uses
20 private delivery, does it not?

21 A Of course it does.

22 Q I'm not sure if the record is confused or not, but
23 when you were discussing the volumes in Cincinnati when ADVO
24 shifted from mailing to private delivery, as I understood,
25 your testified the private delivery operation is operated

1 weekly on Sunday to virtually the entire market; is that
2 correct?

3 A Yes.

4 Q Now, before the conversion, was the shared mail
5 program also operated weekly throughout the entire market?

6 A Yes, it was.

7 Q And it's now operated once every other week
8 throughout the market?

9 A It's every other week, and it's to a -- was to a
10 larger footprint than the alternate delivery.

11 Q And so ADVO's mailed volume has basically been
12 reduced by half in that market, is that correct, as a result
13 of the conversion to private delivery?

14 A Yes.

15 Q There was also some discussion on about page 17,
16 line 6 through 8 -- excuse me. Let me get the correct cite
17 here.

18 Mr. Straus was referring you to page 17, lines 6
19 through 8, and he was focusing on the second sentence of
20 that paragraph to the effect that the -- where it states:
21 The conversions to private delivery have saved ADVO millions
22 of dollars in distribution costs, all of which has gone
23 directly to ADVO's bottom line.

24 Was the -- if you would read the line right above
25 that, would you like to clarify what you mean there in and

1 sentence?

2 A Well, the line right above it says that these
3 markets have become more profitable to ADVO as a result of
4 their conversion to private delivery due to the combination
5 of the lower distribution cost of private delivery and the
6 enhanced ability to compete for heavier traditional preprint
7 volumes.

8 Q Was ADVO able, because of private delivery, to
9 reduce the rate it charged for preprints and thereby
10 generate more revenues?

11 A Well, it did a couple things. It reduced the rate
12 and it was also able to go after preprints that we couldn't
13 compete for before.

14 Q For it wasn't just cost savings; it was also
15 revenue generation?

16 A Correct.

17 Q And the millions of dollars, does that -- that's
18 gone to ADVO's bottom line, is that a combination of cost
19 reductions and --

20 A It's a combination of cost reduction and revenue
21 growth.

22 MR. McLAUGHLIN: I have no further questions.

23 CHAIRMAN GLEIMAN: Recross?

24 If not, then, Mr. Jiuliano, that completes your
25 testimony here today. We appreciate your appearance and

1 your contributions to our record.

2 We thank you and you're excused.

3 THE WITNESS: Thank you.

4 [Witness excused.]

5 CHAIRMAN GLEIMAN: And as agreed earlier, we're
6 going to try and get two more pieces of testimony quickly
7 into the hearing record. Mr. Hall, if you would please call
8 your witness. Then we're going to break for lunch and we'll
9 probably come back, assuming we get this done very quickly,
10 at quarter to three. We'll take up at quarter to three with
11 NAA Witness Wilson, followed by Witness Prescott, Crowder,
12 Bozzo, and Dr. Haldi batting clean-up.

13 MR. HALL: Major Mailers calls Richard E. Bentley.

14 CHAIRMAN GLEIMAN: Mr. Bentley, you're already
15 under oath in the proceedings.

16 Counsel, you may proceed with the two pieces of
17 testimony.

18 Whereupon,

19 RICHARD E. BENTLEY,

20 a witness, was called for examination by counsel on behalf
21 of the Major Mailers Association and, having been previously
22 duly sworn, was further examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. HALL:

25 Q Mr. Bentley, do you have before you a document

1 entitled Revised Supplemental Testimony of Richard E.
2 Bentley on behalf of Major Mailers Association dated August
3 29 and marked Exhibit MMA-ST-1?

4 A Yes, I have that.

5 Q Should any changes be made in that document?

6 A No. It's final.

7 Q Do you adopt that document as -- or the -- do you
8 adopt that document as your sworn testimony in this
9 proceeding?

10 A Yes, I do.

11 Q Did you also prepare an attached exhibit marked
12 MMA-ST-1A and 1B?

13 A Yes.

14 Q Should any changes be made in those documents?

15 A No.

16 MR. HALL: Mr. Chairman, at this point, I have
17 handed two copies to the reporter and would ask that the
18 testimony and exhibits be copied into the record and
19 admitted into evidence.

20 CHAIRMAN GLEIMAN: Without objection, the
21 materials in question will be transcribed into the record
22 and received into evidence.

23 [Revised Supplemental Testimony of
24 Richard E. Bentley on behalf of
25 Major Mailers Association, Exhibit

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MMA-ST-1, and MMA-ST-1A and 1B were
received in evidence and
transcribed into the record.]

Exhibit MMA-ST-1

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

Postal Rate and Fee Changes

Docket No. R2000-1

**REVISED SUPPLEMENTAL TESTIMONY OF
RICHARD E. BENTLEY
ON BEHALF OF
MAJOR MAILERS ASSOCIATION**

August 29, 2000

Revised 8/29/00

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1 Just yesterday, August 28, as I was preparing to take the witness stand,
2 the Postal Service filed new library references, USPS-LR-I-478, 480 and 482,
3 that use a different method for deriving First-Class non-automation costs for the
4 FY 99 update.

5 Using the August 21 and August 28 versions for USPS LR-I-137 and 147,
6 I have, once again, revised MMA-LR-1. The latest revision, identified as MMA-
7 LR-3, was filed just before the hearing began today.

8 All three of my library references indicate that First-Class workshare
9 savings are significantly greater than the discounts that MMA proposes.
10 Nevertheless, due to the numerous, untimely and inadequately explained
11 revisions that the Postal Service has made in response to Order No. 1294, I do
12 not recommend that the Commission rely on the resulting cost savings shown in
13 ~~Library References MMA-LR-2 or 3.~~ Such revisions are simply too controversial,
14 error prone, and ultimately unreliable for me or the Commission to place any
15 stock in them. As a consequence, I reluctantly recommend that, if and when the
16 Commission settles on cost figures it determines are accurate and reliable, it
17 simply substitute whichever cost pools it finally accepts into my cost model in
18 order to derive appropriate workshare cost savings.

19 I also discuss the importance of additional workshare mail preparation
20 activities that came to my attention after my original testimony was filed only as a
21 result of interrogatories the Postal Service directed to MMA witness Sharon
22 Harrison. The Postal Service claims that the significant cost differences between
23 First-Class Automation letters and its Bulk Metered Mail (BMM) benchmark for

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1 the mail preparation and platform cost pools are unrelated to worksharing. Ms.
2 Harrison's descriptions of the mail preparation activities performed by MMA
3 companies convincingly refutes that claim. Moreover, the Postal Service has
4 been systematically shifting to workshare mailers significant cost burdens
5 associated with additional worksharing activities once performed by Postal
6 Service personnel. The Service has transferred the responsibilities for these
7 activities to workshare mailers in the guise of workshare discount requirements.

8 USPS witness Miller apparently was not aware of these additional
9 workshare activities that mailers perform; in any event he recognized only cost
10 differences associated with presorting and prebarcoding in his testimony, and did
11 not incorporate any other workshare cost savings in his analysis. As a result, he
12 has understated workshare cost savings by failing to (1) include the mail
13 preparation and platform cost pools in his analysis, and (2) account for mail
14 preparation activities that the Postal Service has transferred to mailers. The
15 latter cost sparing activities do not show up in any measurement of workshare
16 cost savings on the record in this proceeding, but definitely should be
17 incorporated into the determination of workshare discounts in the next omnibus
18 rate case.

19 All of MMA's cost analyses indicate that workshare cost savings are
20 significantly higher than the discounts that I propose. Although I do not change
21 my specific rate recommendations, I urge the Commission to increase workshare
22 discounts even more, if possible, and to re-define workshare savings to include

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1 activities that workshare mailers routinely perform but the Postal Service
2 excludes by design.

3

4 **II. Update of MMA's First-Class Workshare Cost Savings**

5 Library References MMA-LR-2 and 3 revise the cost analysis used to
6 derive workshare costs savings that was originally presented as MMA-LR-1. The
7 methodology for the update is exactly the same and simply incorporates revised
8 base year and test year volume variable cost pools, volumes, productivities,
9 wage rates, delivery costs and piggyback factors set forth in Library References
10 USPS LR-I-466 and 468, and USPS LR-I-478 and 482, respectively. These
11 costs were derived using the Commission-approved methodology for attributing
12 costs, which maintains, generally, that labor costs vary 100% with changes in
13 volume.

14 I do not recommend that the Commission use the results shown in either
15 MMA-LR-2 or MMA-LR-3 to support its final First-Class worksharing discounts.
16 The Postal Service maintains that it changed the methodology for collecting cost
17 data for First-Class Non-automation letters between FY 98 and FY 99. That
18 change, the Postal Service now claims, caused the costs of such letters to be
19 overstated and the costs of Automation letters to be understated. Therefore, the
20 updated derivations provided in Library Reference MMA-LR-2 apparently are
21 outdated.

22 Library Reference MMA-LR-3 has been completed only hours after
23 receiving revised updated data from the Postal Service. I have not had sufficient

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1 time to review these revised documents, cannot explain why the derived
2 worksharing cost savings behave the way they have, and do not accept the new
3 cost pool amounts as the basis for my recommended discounts.

4 Although I have not had sufficient time to adequately review the Postal
5 Service's updated cost presentations in response to Commission Order 1294, I
6 note the following possible anomalies or areas that, in my view, require additional
7 explanation by the Postal Service.

- 8 • The Postal Service has applied what should have been "across-the-
9 board" cost increases for wages, inflation factors and energy costs. As
10 such I would have expected the relative cost changes by subclass to
11 be reasonably close (and in the same direction) as one another. This
12 has not been the case.
13
- 14 • First-Class costs appear to have been increased by several hundred
15 million dollars, and Commercial Standard Mail costs have been
16 reduced by almost a similar amount. See Exhibit MMA-ST-1B.
17
- 18 • USPS witness Patelunas was unable to explain why the updated costs
19 compared the way they do. He stated, "I have not made this
20 comparison because I have not had time and it is not necessary for my
21 testimony." See TR 35/16626-29, 16685-90, and response to
22 Interrogatory ABA & NAPM/USPS-ST44-13.
23
- 24 • In its updated cost presentations, the Postal Service has combined the
25 separate impacts of updated FY 1999 billing determinants and updated
26 cost change factors. See TR 35/16691-92, and response to
27 Interrogatory ABA&NAPM/USPS-ST44-1. In addition, the Postal
28 Service was given an opportunity to develop additional adjustments
29 that it felt was appropriate. It is not possible for me to update my cost
30 analysis simply to reflect the updated FY 1999 billing determinants
31 without incorporating all of the other changes that were made.
32
- 33 • The Postal Service has changed its longstanding policy of limiting the
34 wage rate change to one percent below the employment cost index
35 (ECI minus 1). Mr. Patelunas was instructed by unnamed
36 "management" officials, with no apparent explanation, to limit the wage
37 rate increase to equal the ECI. See TR 35/16796-16800.
38

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- 1 ● The Postal Service's revised updated costs were inspired by an
2 apparent large increase in First-Class non-automation unit costs as
3 reported by the In-Office Cost System. The unit costs for First-Class
4 Carrier Route presorted letters has declined from 3.1 cents to 2.4
5 cents. There is no logical explanation for this 23% decrease. See
6 Library References MMA-LR-1, 2 and 3, based on Library References
7 USPS-I-147, 466 and 478.
8
- 9 ● The unit costs for all First-Class presorted letters appear to decrease
10 from 4.3 cents to 3.9 cents after the 8/21 updated cost presentation.
11 However, the unit cost for these pieces then increase to 4.5 cents as a
12 result of the 8/28 updated costs. There is no explanation as to why the
13 unit costs for all presorted letters should increase by 13% when the
14 Postal Service was allegedly correcting a cost shift between First-
15 Class Nonautomation and Basic letters with no change in the total
16 costs. See Library References MMA-LR-1, 2 and 3, based on Library
17 References USPS-I-147, 466 and 478.
18
- 19 ● First-Class automation letter "breakthrough productivity" cost
20 reductions do not seem to be shared equally with their Standard Mail
21 (A) automation counterparts, as discussed by ABA&NAPM witness
22 Clifton. See ABA&NAPM-ST-1 at 10 - 13.
23

24 Absent the opportunity to review and analyze the underlying data that
25 derived MMA's workshare cost savings, I recommend that the Commission, after
26 making its decision on the appropriate costing methodology, base year, and cost
27 change inputs, simply substitute its final recommended cost pools into my cost
28 model to derive the appropriate workshare cost savings. In the alternative, the
29 Commission should use my original analysis of workshare cost savings provided
30 in Library Reference MMA-LR-1.

31 A summary of the results for the August 21 update and the August 28
32 update is provided in Tables 1 and 2, respectively. In those tables, the subtitle
33 "Worksharing-Related Unit Mail Processing Cost Savings" refers to mail
34 operations, and the subtitle "Potential Total Worksharing Unit Savings" refers to
35 mail operations and related cost savings associated with workshare mailers'

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1 compliance with the Postal Service's move update requirements (.87 cents) and
 2 mandatory prebarcoding of any included reply mail envelopes (.47 cents), and
 3 averted window service costs (1.49 cents).

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Table 1
Comparison of MMA Derived First-Class Workshare Unit Cost Savings
(Original vs. August 21 Update)
(Cents)

Rate Category Benchmark	Original Analysis		8/21 Update Analysis	
	Worksharing-Related Unit Mail Processing Cost Savings	Potential Total Worksharing Unit Savings	Worksharing-Related Unit Mail Processing Cost Savings	Potential Total Worksharing Unit Savings
Auto Basic Presort Letters Meter Mail Letters	6.91	9.71	7.21	10.04
Auto 3-Digit Presort Letters Auto Basic Letters	1.52	4.32	1.40	4.23
Auto 5-Digit Presort Letters Auto 3-Digit Letters	1.87	4.68	1.73	4.56
Auto Car Rt Presort Letters Auto 5-Digit Letters	0.47	3.28	0.90	3.72

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Table 2
Comparison of MMA Derived First-Class Workshare Unit Cost Savings
(Original vs. August 28 Update)
(Cents)

Rate Category Benchmark	Original Analysis		8/28 Update Analysis	
	Worksharing-Related Unit Mail Processing Cost Savings	Potential Total Worksharing Unit Savings	Worksharing-Related Unit Mail Processing Cost Savings	Potential Total Worksharing Unit Savings
Auto Basic Presort Letters Meter Mail Letters	6.91	9.71	6.53	9.35
Auto 3-Digit Presort Letters Auto Basic Letters	1.52	4.32	1.58	4.40
Auto 5-Digit Presort Letters Auto 3-Digit Letters	1.87	4.68	1.95	4.77
Auto Car Rt Presort Letters Auto 5-Digit Letters	0.47	3.28	1.33	4.15

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7 **Tables 3 and 4 below show MMA's originally proposed Automation**
8 **discounts compared to the August 21 and August 28 cost savings, respectively,**
9 **and computes the percentage of workshare cost savings that can be expected to**
10 **be passed through to workshare mailers.**

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Table 3
Comparison of MMA Proposed First-Class Workshare Discounts
With the Derived Unit Cost Savings
(August 21 Update)
(Cents)

Rate Category Benchmark	MMA Proposed Discount	Worksharing- Related Unit Mail Processing Cost Savings	Worksharing- Related Mail Processing % Passthrough	Potential Total Unit Worksharing Cost Savings	Potential Total Worksharing % Passthrough
Auto Basic Presort Letters Meter Mail Letters	6.2	7.21	86%	10.04	62%
Auto 3-Digit Presort Letters Auto Basic Letters	1.2	1.40	85%	4.23	28%
Auto 5-Digit Presort Letters Auto 3-Digit Letters	1.8	1.73	104%	4.56	39%
Auto Car Rt Presort Letters Auto 5-Digit Letters	0.5	0.90	56%	3.72	13%

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Table 4
Comparison of MMA Proposed First-Class Workshare Discounts
With the Derived Unit Cost Savings
(August 28 Update)
(Cents)

Rate Category Benchmark	MMA Proposed Discount	Worksharing-Related Unit Mail Processing Cost Savings	Worksharing-Related Mail Processing % Passthrough	Potential Total Unit Worksharing Cost Savings	Potential Total Worksharing % Passthrough
Auto Basic Presort Letters Meter Mail Letters	6.2	6.53	95%	9.35	66%
Auto 3-Digit Presort Letters Auto Basic Letters	1.2	1.58	76%	4.40	27%
Auto 5-Digit Presort Letters Auto 3-Digit Letters	1.8	1.95	92%	4.77	38%
Auto Car Rt Presort Letters Auto 5-Digit Letters	0.5	1.33	38%	4.15	12%

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7

8 **III. Additional Mail Preparation Cost Savings Not Previously Measured**

9 In response to Interrogatories USPS/MMA-T2-2, 5(a) and (b), MMA
10 witness Harrison and I discuss the First-Class workshare mail preparation
11 regulations as they currently exist and are administered. See TR 26/12240-41,
12 12246-12250, 12370-72. There, we indicate that in order to qualify for First-
13 Class automation discounts, workshare mailers must comply with a vast array of
14 prerequisite requirements with respect to the mailing piece itself, and with
15 respect to preparing the letters prior to the time they are deposited with the
16 Postal Service. All of the costs associated with such activities are borne by
17 workshare mailers. While the Postal Service's analysis indirectly considers cost

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1 savings that result from mail piece design activities, it totally disregards cost
2 savings resulting from mail preparation activities. The reason for this is simple:
3 USPS witness Miller's derivation of workshare costs savings does not consider
4 mail preparation or platform activities to be workshare-related.

5 My derived workshare cost savings, even as updated, include only a
6 portion of the total cost savings. See TR 26/12251-52. Specifically, my analysis
7 includes mail preparation and platform cost savings totaling \$442 million,
8 equivalent to just under 1.0 cent per piece, that USPS witness Miller's analysis
9 excluded. See Exhibit MMA-ST-1A (Revised 8/29/00).

10 However, not all of the mail preparation cost savings have been properly
11 isolated or analyzed by the Postal Service. I am referring to cost savings that the
12 Postal Service will realize by "requiring" workshare mailers to perform mail
13 preparation tasks that postal workers performed in the Base Year but no will
14 longer perform by the Test Year.¹ To the extent such transfers of cost
15 responsibility for mail preparation activities are not captured by the Postal
16 Service's roll-forward model, postal costs for workshare letters will be overstated
17 and workshare cost savings will be understated. I recommend that the
18 Commission direct the Postal Service to measure the cost impact of workshare
19 mailers' compliance with qualifying regulations, and to include such savings as
20 part of its derived cost savings in the next omnibus rate proceeding.

¹ In response to Interrogatory USPS/MMA-T2-5(b) I stated that, "MMA mailers are continually negotiating with local postal officials, who keep on placing (and shifting) more cost burdens upon them." Two examples of these activities are attaching ACT Tags and D&R labels to trays. See TR 26/12379-80. Transferring the costs for such activities from the Postal Service to mailers will not show up as part of workshare cost savings in either Mr. Miller's analysis or my analysis.

Revised 8/29/00

1 **A. Mail Preparation Requirements Impact Platform Operation Costs**

2 Section 221.23 of the Domestic Mail Classification Schedule states that
3 First-Class presorted mail must meet "the letter machine-ability and other
4 preparation requirements specified by the Postal Service." Presumably the
5 Postal Service establishes these mail preparation requirements to ensure that
6 First-Class presorted letters are processed smoothly and efficiently by
7 automation equipment, and to facilitate the movement of mail within and between
8 postal facilities. Cost savings resulting from the former are measured by cost
9 pools that reflect individual piece handling operations. However, cost savings
10 resulting from the latter mail preparation requirements, which directly impact
11 platform operations, were totally removed from consideration by USPS witness
12 Miller who unilaterally declared that platform operation costs were
13 nonworksharing (fixed) costs. His conclusion that platform cost differences,
14 measured between his BMM benchmark and presorted mail, should be excluded
15 from the derivation of workshare cost savings was based simply upon statements
16 made by former USPS witnesses in Docket No. R97-1 who, unlike Mr. Miller, did
17 include platform operation costs savings in their analyses of workshare-related
18 cost savings.²

19 By his own admission, USPS witness Miller does not know the extent to
20 which workshare mailers sleeve, band, label, stretch-wrap, sort and palletize

² See TR 7/3145. Mr. Miller disregarded the testimony of USPS witness Smith in Docket No. MC95-1. As reported by the Commission, "Smith concluded that these non-model costs [including platform handling] are, in fact, presort related and that many of these costs would probably be proportionate to model costs". See Docket No. MC95-1 at IV-44 and IV-31.

Revised 8/29/00

1 trays, or the extent to which workshare mailers label, sort and pack postal trucks
2 with pallets. At TR 7/3149 he conceded that,

3 I am not really an expert on presort mailers so I wouldn't
4 know the answer to questions in terms of what they do
5 prior to entering their mail at a postal facility.
6

7 That determination alone caused USPS witness Miller to ignore almost
8 \$250 million per year of annual cost savings associated with platform operations.
9 See Exhibit MMA-ST-1A (Revised 8/29/00). The Commission should not ignore
10 or disallow such cost-savings activities based on the unsupported assertions of a
11 Postal Service witness who is not familiar with the manner in which workshare
12 mailers prepare and present their mail.

13 **B. Mail Preparation Requirements Impact Mail Preparation Costs**

14 Mr. Miller's unfamiliarity with workshare mail preparation activities
15 also caused him to erroneously accept, without further study, Bulk Metered
16 Mail (BMM) as the benchmark from which to measure workshare cost
17 savings for Automation-Basic letters. Mr. Miller simply assumed that the
18 cost to process BMM in the mail preparation cost pool (1CANCMMP) was
19 zero. He justified this theoretical adjustment because he assumed that
20 BMM and First-Class workshare letters were entered at post offices in the
21 same manner, and that each would "bypass the cancellation and metered
22 mail preparation operations."³ See TR 7/3095.

³ Ultimately, Mr. Miller's assumption that the 1CANCMMP cost pool would be zero for BMM is meaningless. It has no bearing whatsoever on his derived workshare cost savings since he made a second assumption, also lacking support, that mail preparation costs are not impacted by worksharing operations. Thus, the cost difference between workshare letters and BMM for mail preparation operations have been removed from Mr. Miller's derivation of workshare cost savings in the same manner that he eliminated platform cost savings.

Revised 8/29/00

1 Mr. Miller's assumption that BMM letters (if they exist at all) and
2 workshare letters are presented to the Postal Service in the same manner
3 is baseless. His perception that BMM mailers will voluntarily pack and
4 neatly face their BMM letters into trays and deposit them at local post
5 offices was unsupported. Nevertheless, even assuming he was correct, it
6 is simply inconceivable that BMM mailers would prepare their mail in the
7 same manner and to the same extent as workshare mailers routinely do.
8 No Postal Service witness has ever claimed that BMM trays are sleeved; or
9 that they are they banded; or that they are labeled and sorted onto pallets;
10 or that the pallets are labeled, stretch-wrapped, sorted and packed into
11 postal service trucks so that they can be transported directly to
12 intermediate or destination offices. Nor has any Postal Service witness
13 claimed that BMM mailers attach Air Contract Transportation (ACT) tags or
14 Destination & Routing (D&N) labels to trays of BMM letters.

15 It is also inconceivable that BMM mailers (if any do exist) enter
16 letters in the quantities that large presort mailers like the MMA companies
17 and others do on a daily basis. As Ms. Harrison stated "[b]ecause of these
18 extra mail preparation functions that SBC and other MMA mailers are
19 *required to perform*, cost savings that accrue to the Postal Service are
20 much greater for mailings of say 50,000 pieces, than for smaller mailings
21 of, say, 500 pieces." See TR 26/12256.

22 In sum, there simply is no factual or logical basis for assuming, as
23 USPS witness Miller did, that there are no material mail preparation cost

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1 differences between Automation letters and any reasonable benchmark
2 mail pieces. As shown in Exhibit MMA-ST-1A (Revised 8/29/00), Mr.
3 Miller's assumption caused him to disregard over \$200 million in annual
4 workshare cost savings.

5

6 **C. Mail Preparation Requirements are Discriminatory**

7 The Postal Service has been given a significant amount of flexibility to
8 enforce workshare regulations. Unfortunately, this has led to non-uniform mail
9 preparation "requirements" that vary among local post offices and can lead to
10 discrimination against similarly situated workshare mailers. For example, some
11 workshare mailers are "required" by their local postal officials to present their
12 trays stretch-wrapped on pallets, whereas other mailers may be allowed by
13 different postal officials to use rolling cages. Some postal officials provide
14 workshare mailers with requisite stretch-wrap material, while others require
15 workshare mailers to provide and pay for such supplies. Some mailers must
16 ACT tag their trays while others are not required to do so.

17 The disparate manner in which the mail preparation requirements are
18 administered is a long-range problem that needs to be resolved. Inconsistent
19 application of unwritten "requirements" by Postal Service personnel discriminates
20 against workshare mailers without cause. Accordingly, I recommend that the
21 Commission require the Postal Service establish officially recognized written
22 procedures and requirements for preparing workshare mail. Such a document
23 would not be unlike the Domestic Mail Classification Schedule that was

Revised 8/29/00

1 introduced as part of the settlement package among parties after Docket No.
2 MC73-1. Moreover, establishment of such uniform, written procedures would
3 allow both workshare mailers and local postal officials to work together within a
4 fair, consistent framework, doing away with over-zealous and arbitrary
5 enforcement of requirements that now is apparently quite common.

6 **IV. CONCLUSION**

7 Because of the way the Postal Service has presented its cost updates and
8 the several revisions thereto, it has been very difficult to isolate the specific
9 impact that changing the base year from FY 98 to FY 99 has on the relationship
10 between derived workshare cost savings and MMA's proposed First-Class
11 workshare discounts. Nevertheless, under all of MMA's cost analyses, MMA's
12 proposals for modest increases in the current workshare discounts are dwarfed
13 by the relevant cost savings, as Tables 3 and 4 demonstrate.

14 The importance of this case cannot be overstated. The Commission must
15 send a strong signal to both the Postal Service and mailers to strengthen their
16 bond. After all, they need each other. The Postal Service's shortsighted position
17 of severely limiting the very definition of workshare activities and understating
18 workshare savings in its analyses must be rejected.

19 I urge the Commission to provide workshare mailers with the necessary
20 financial incentives to stay with the program. The Commission should set the
21 record straight once and for all by including mail preparation and platform cost
22 savings as part of the workshare discount determination. It should expand the
23 definition of workshare cost savings to include additional cost savings pertaining

Revised 8/29/00

1 to move updates, inclusion of prebarcoded reply envelopes, and avoided window
2 service costs that the Postal Service obviously enjoys but does not consider to
3 be workshare-related. The Commission should increase workshare discounts to
4 the extent possible under the newly updated costs and revenues, and within the
5 guideline of the Postal Service's breakeven requirement.

6 Finally, the Commission should require that the Postal Service establish
7 official eligibility standards for First-Class workshare mailers that list all the
8 requirements and regulations in one, complete schedule.

9

EXHIBIT MMA-ST-1A

**Derivation of Updated Potential
First-Class Workshare Annual Test Year
Cost Savings Ignored By USPS Witness
Miller's Assumptions That Platform
And Mail Preparation Cost Pools
Are Unrelated to Worksharing
(Revised 8/29/00)**

Derivation of Potential Annual Updated Test Year Cost Savings Ignored By USPS Witness Miller's Assumptions That Platform and Mail Preparation Cost Pools Are Unrelated to Worksharing
(Cents)

First Class Rate Category	(1) USPS Method Unit Cost			(2) (3) (4) (5) (6)		
	1PLATFRM	1CANCMMP	Total	1PLATFRM	1CANCMMP	Total
BMM Benchmark	0.760 [1]	0.310 [1]	(1) + (2) 1.070	0.893 [3]	0.517 [3]	(4) + (5) 1.410
Automation Letters	0.304 [1]	0.026 [1]	0.330	0.340 [3]	0.064 [3]	0.404
Automation Unit Cost Savings	0.456 [2]	0.284 [2]	0.740	0.553 [2]	0.454 [2]	1.006
Automation TY Volume (000) [4]			42,491,654			42,491,654
Carrier Route Letters	0.016 [1]	0.144 [1]	0.161	0.391 [3]	0.039 [3]	
Carrier Route Unit Cost Savings	0.743 [5]	0.166 [5]	0.909	0.502 [5]	0.478 [5]	
Carrier Route TY Volume (000) [4]			1,544,810			1,544,810
Annual TY Potential Savings (\$000)[6]	205,208	123,171	328,379	242,577	200,175	442,752

[1] USPS LR-I-481, File TY2001, Letters (4) spreadsheet

[2] BMM Benchmark - Automation Letters

[3] USPS LR-I-482, File TY2001, Letters (4) spreadsheet

[4] Exhibit MMA-1C

[5] BMM Benchmark - Carrier Route Letters

[6] Auto Cost Savings x .01 x Auto Volume + Car Rt Cost Savings x .01 x Car Rt Volume

EXHIBIT MMA-ST-1B

**Comparison of Original And Updated
Volume Variable Costs By
Subclass For The
Test Year After Rates
Using the USPS and PRC
Attributable Cost Methodologies**

Test Year After Rates Finances Using FY 99 Billing Determinants and USPS Cost Methodology
(\$000's)

Description	Updated Vol Variable Costs (1)	Original Vol Variable Cost (2)	Difference (1) - (2) (3)	% Difference (3) / (2) (4)
First-Class Mail				
Single-Piece Letters	13,565,268	13,326,042	239,226	1.80%
Presort and Automation Letters	5,081,634	5,019,464	62,170	1.24%
Total Letters	18,646,902	18,345,506	301,396	1.64%
Single-Piece Cards	543,567	539,919	3,648	0.68%
Presort and Automation Cards	173,866	168,958	4,908	2.90%
Total Cards	717,433	708,877	8,556	1.21%
Total First-Class Mail	19,364,335	19,054,383	309,952	1.63%
Priority Mail	3,194,542	3,064,062	130,480	4.26%
Express Mail	467,914	480,984	(13,070)	-2.72%
Mailables	854	1,000	(146)	-14.62%
Periodicals				
Within County	86,222	81,397	4,825	5.93%
Outside County	2,345,698	2,384,191	(38,493)	-1.61%
Total Periodicals	2,431,920	2,465,588	(33,668)	-1.37%
Standard Mail (A)				
Regular	6,512,735	6,823,933	(311,198)	-4.56%
Enhanced Carrier Route	2,629,439	2,471,864	157,575	6.37%
Total Commercial	9,142,174	9,295,797	(153,623)	-1.65%
Nonprofit	1,363,390	1,320,611	42,779	3.24%
Enhanced Carrier Route	199,829	208,577	(8,748)	-4.19%
Total Nonprofit	1,563,219	1,529,188	34,031	2.23%
Total Standard Mail (A)	10,705,393	10,824,985	(119,592)	-1.10%
Standard Mail (B)				
Parcel Post	1,077,003	1,052,158	24,845	2.36%
Bound Printed Matter	498,658	479,204	19,454	4.06%
Special Rate	357,987	301,195	56,792	18.86%
Library Rate	54,015	47,444	6,571	13.85%
Total Standard Mail (B)	1,987,665	1,880,001	107,664	5.73%
Penalty				
Free-for-the-Blind	31,833	40,348	(8,515)	-21.10%
Total Domestic Mail	38,184,455	37,811,351	373,104	0.98%
International Mail	1,570,744	1,429,916	140,828	9.85%
Total All Mail	39,755,199	39,241,267	513,932	1.31%
Special Services				
Registry	100,215	85,204	15,011	17.62%
Certified Mail	460,071	461,746	(1,675)	-0.36%
Insurance	79,549	76,638	2,911	3.80%
COD	16,629	14,992	1,637	10.92%
Money Orders	165,714	153,995	11,719	7.61%
Stamped Cards	3,048	3,444	(396)	-11.49%
Stamped Envelopes	11,077	12,544	(1,467)	-11.69%
Box/Caller Service	586,317	589,226	(2,909)	-0.49%
Other	123,487	141,324	(17,837)	-12.62%
Total Special Services	1,546,108	1,539,113	6,995	0.45%
Total Mail & Services	41,301,307	40,780,380	520,927	1.28%
Other Costs	28,031,846	27,978,701	53,145	0.19%
Other Income				
Prior Years Loss Recovery	311,709	268,257	43,452	16.20%
Continuing Appropriations				
Investment Income				
Grand Total	69,644,862	69,027,338	617,524	0.89%

Source: POIR Response Exh USPS-32B
(Revised 8/3/00) (Revised 4/21/00)
Page 4

Test Year After Rates Finances Using FY 99 Billing Determinants And PRC Cost Methodology
(\$000's)

Description	Updated Vol Variable Costs (1)	Original Vol Variable Cost (2)	Difference (1) - (2) (3)	% Difference (3) / (2) (4)
First-Class Mail				
Single-Piece Letters	14,946,743	14,681,253	255,490	1.74%
Presort and Automation Letters	5,490,877	5,420,559	70,318	1.30%
Total Letters	20,437,620	20,111,812	325,808	1.62%
Single-Piece Cards	589,587	592,305	7,282	1.23%
Presort and Automation Cards	184,525	181,167	3,358	1.85%
Total Cards	784,122	773,472	10,650	1.38%
Total First-Class Mail	21,221,742	20,885,284	336,458	1.61%
Priority Mail	3,563,988	3,332,232	231,756	6.95%
Express Mail	731,645	705,801	25,844	3.66%
Mailgrams	1,072	1,134	(62)	-5.45%
Periodicals				
Within County	90,814	84,139	6,675	7.93%
Outside County	2,469,420	2,522,213	(52,793)	-2.09%
Total Periodicals	2,560,234	2,606,352	(46,118)	-1.77%
Standard Mail (A)*				
Regular	7,063,234	7,402,438	(339,205)	-4.58%
Enhanced Carrier Route	2,788,183	2,835,907	(47,724)	-1.68%
Total Commercial	9,849,417	10,038,348	(188,929)	-1.88%
Nonprofit	1,474,455	1,425,673	48,782	3.42%
Enhanced Carrier Route	206,573	222,128	(15,556)	-7.00%
Total Nonprofit	1,681,028	1,647,802	33,226	2.02%
Total Standard Mail (A)	11,530,444	11,686,148	(155,704)	-1.33%
Standard Mail (B)				
Parcel Post	1,102,953	1,081,897	20,956	1.94%
Bound Printed Matter	513,871	481,326	32,545	6.76%
Special Rate	372,689	311,038	61,651	19.82%
Library Rate	54,996	48,828	6,168	12.63%
Total Standard Mail (B)	2,044,510	1,923,189	121,321	6.31%
Penalty	0			
Free-for-the-Blind	34,986	43,501	(8,515)	-19.57%
Total Domestic Mail	41,688,621	41,183,641	504,980	1.23%
International Mail	1,604,298	1,451,585	152,713	10.52%
Total All Mail	43,292,918	42,635,226	657,692	1.54%
Special Services				
Registry	77,171	82,759	(5,588)	-6.75%
Certified Mail	505,214	507,537	(2,323)	-0.46%
Insurance	82,093	78,113	3,980	5.10%
COD	18,556	16,727	1,829	10.93%
Money Orders	163,616	152,143	11,473	7.54%
Stamped Cards	3,046	3,444	(398)	-11.55%
Stamped Envelopes	11,034	12,473	(1,439)	-11.54%
Box/Caller Service	576,367	579,812	(3,445)	-0.59%
Other	188,446	199,808	(13,180)	-6.59%
Total Special Services	1,623,544	1,632,614	(9,070)	-0.56%
Total Mail & Services	44,916,462	44,267,840	648,622	1.47%
Other Costs	24,441,224	24,584,124	(142,900)	-0.58%
Other Income				
Prior Years Loss Recovery	311,709	268,257	43,452	16.20%
Continuing Appropriations				
Investment Income				
Grand Total	69,669,395	69,120,221	549,174	0.79%

*Standard Mail (A) S.P. Cost of (73) omitted

Source: LR-J-442 TYAR Exh MMA-1B at 2A

Comparison Of USPS and PRC Cost Differences For Test Year After Rates Using FY 89 Billing Determinants
(\$000's)

Description	Updated	Updated
	USPS % Diff In Vol Var Costs (1)	PRC % Diff In Vol Var Costs (2)
First-Class Mail		
Single Piece Letters	1.80%	1.74%
Domestic and International Letters	1.24%	1.30%
Single Piece Cards	1.84%	1.82%
Domestic and International Cards	0.68%	1.23%
Domestic and International Certificates	2.90%	1.85%
Domestic and International Postage	1.21%	1.38%
Domestic and International Postage	1.63%	1.81%
Priority Mail	4.26%	6.95%
Express Mail	-2.72%	3.66%
Mail Services	-14.62%	-5.45%
Wilmington County	5.93%	7.93%
Domestic Certificates	-1.81%	-2.09%
Domestic Certificates	-1.37%	-1.77%
Standard Mail (A)		
Regular	-4.56%	-4.58%
Regular	6.37%	5.70%
Regular	-1.66%	-1.88%
Nonprofit	3.24%	3.42%
Nonprofit	-4.19%	-7.00%
Nonprofit	2.23%	2.02%
Nonprofit	-1.10%	-1.33%
		1.94%
		6.76%
		19.82%
		2.63%
		5.31%
		0.00%
		19.57%
		2.23%
		0.52%
		1.54%
		-6.75%
		-0.46%
		5.10%
		10.83%
		7.54%
		-11.55%
		-11.54%
		-0.59%
		-6.59%
		-0.56%
		1.47%
		1.58%
		16.20%
		0.79%

1 CHAIRMAN GLEIMAN: And now the Keyspan --

2 MR. HALL: One moment. I just wanted to confirm
3 with the witness that he is also --

4 BY MR. HALL:

5 Q In conjunction with this testimony, you have filed
6 two library references, MMA-LR-2 and LR-3?

7 A Yes, that's correct.

8 MR. HALL: Now, if Keyspan could call its witness,
9 Richard E. Bentley.

10 CHAIRMAN GLEIMAN: Certainly.

11 BY MR. HALL:

12 Q Mr. Bentley, do you have before you a document
13 entitled Supplemental Testimony of Richard E. Bentley on
14 behalf of Keyspan Energy dated August 23 and marked Exhibit
15 KE-ST-1?

16 A Yes, I have that.

17 Q Should any changes or corrections be made in that
18 document?

19 A Well, yes. Unlike my MMA testimony the -- where
20 the impact of the Postal Service's updated cost that was
21 filed yesterday were fairly significant, with KE, Keyspan,
22 it was not significant, but I do have one number that
23 changed by 200ths of a penny, and I guess I should change
24 that, and it's on table 1, the first line where the updated
25 cost, the QBRM unit cost savings, it had been 5.2635 and now

1 it should be 5.2417.

2 Q Do you also have or have you also prepared
3 exhibits to go with this testimony that are identified as
4 ST-1A, 1B and 1F?

5 A Yes, that's correct.

6 Q Any changes to any of the numbers in those
7 exhibits?

8 A There is a change to the first page of Exhibit
9 KE-ST-1A. That is a derivation of the number that I just
10 said had to be changed. There are four or five numbers that
11 have to be changed and I would be glad to go through them
12 one at a time here.

13 CHAIRMAN GLEIMAN: I think, in light of the fact
14 that this is late received revised testimony, that just so
15 the Postal Service is aware of the changes, that you ought
16 to go through them quickly.

17 THE WITNESS: Okay. I can just go by the footnote
18 numbers. It had been 1.188; it's now going to become 1.181.
19 On footnote 3, it was 9.202; it becomes 9.147. Footnote 5
20 was 5.561; becomes 5.528. Footnote 6 was 3.641; becomes
21 3.619. Footnote 7 stays the same. Footnote 11 was 5.264,
22 becomes 5.242.

23 BY MR. HALL:

24 Q And that's all on page 1 of Exhibit KE-ST-1A?

25 A That's correct.

1 Q Okay. And you adopt the supplemental testimony as
2 your sworn testimony in this proceeding?

3 A Yes, I do.

4 MR. HALL: At this point, Mr. Chairman, I would
5 ask that Mr. Bentley's supplemental testimony and exhibits
6 be copied into the record and admitted into evidence.

7 CHAIRMAN GLEIMAN: Without objection, it's so
8 ordered, the material will be transcribed into the record
9 and entered into evidence.

10 [Supplemental Testimony of Richard
11 E. Bentley on behalf of Keyspan
12 Energy, Exhibit KE-ST-1, and
13 Exhibits ST-1A, 1B and 1F, were
14 received in evidence and
15 transcribed in the record.]
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Exhibit KE-ST-1

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

Postal Rate and Fee Changes

Docket No. R2000-1

**SUPPLEMENTAL TESTIMONY OF
RICHARD E. BENTLEY
ON BEHALF OF
KEYSPAN ENERGY**

August 23, 2000

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1 **II. Updated Figures Do Not Materially Change**

2 Table 1 compares the original cost figures with the newly updated cost
 3 figures. The sources of the updated figures are Exhibits KE-ST-1A, 1B and 1F.
 4 The methodology used to derive those number is exactly the same as presented
 5 in original Exhibits KE-1A, 1B and 1F. Because the cost figures change so
 6 slightly, there is no reason to change any of the conclusions and
 7 recommendations stated in my original testimony. Nor are there any further
 8 changes that should be made to those analyses.

9 **Table 1**
 10 **Comparison of Original and Updated Figures Pertaining**
 11 **To KeySpan Energy's QBRM Fee Proposal**

Exhibit	Page	Derived Figure	Original	Updated
A	1	QBRM Unit Cost Savings (Cents)	5.2030	5.2635 <i>5,241</i>
B	1	High Volume Unit QBRM Cost (Cents)	0.0017	0.0018
	2	Low Volume Unit QBRM Cost (Cents).	0.0343	0.0351
	3	Total Unit QBRM Cost (Cents)	0.0118	0.0120
F	1	Contrib to Inst Costs Under USPS Fees (\$000)	6,068	5,540
	1	Contrib to Inst Costs Under KE Fees (\$000)	5,146	5,008
	1	Difference	922	532

12

13

14 **III. Conclusion**

15 The change in base year from FY 98 to FY 99 does not materially alter the
 16 data underlying and supporting my proposal to establish a separate fee structure
 17 for High Volume QBRM based on the annual volumes received. Therefore, I
 18 recommend no changes to my original proposal.

19

Exhibit KE-ST-1A

**Derivation of the
Unit Cost Savings
For QBRM Letters
(Updated Version of Exhibit KE-1A)**

EXHIBIT KE-ST-1A

Page 1 of 15

**Cost Avoidance Calculation for QBRM Discount
(Cents)**

CRA Proportional Adjustment

~~1.181~~ ~~1.188~~ [1]

	Model Cost		Total Worksharing Related Unit Cost	
HANDWRITTEN	7.745	[2]	9.202	[3] 9.147
QBRM	4.681	[4]	5.561	[5] 5.528
Processing Cost Avoidance			3.641	[6] 3.619
Window Service Savings			1.619	[7]
Stamp Printing Costs (\$000)	\$ 209,827	[8]		
TY First-Class Volume (000)	52,877,658	[9]		
Avoided Unit Stamp Printing Cost			0.004	[10]
Total QBRM Savings			5.264	[11] 5.242

[1] See LR-MMA-2A, CRA PROP ADJ (ALL PRESORT) spreadsheet (page 8)

[2] See L-2 (handwritten cost sheet)

[3] [1] * [2]

[4] See L-3 (QBRM cost sheet)

[5] [1] * [4]

[6] [3] - [5]

[7] TR 21/8909

[8] TR 14/6038

[9] Exhibit MMA-1B at 1A

[10] [8] / [9]

[11] [6] + [7] + [10]

**HANDWRITTEN
COST SHEET**

Source: USPS-LR-I-472

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<u>Entry Activities</u>	<u>TPH</u>	<u>Pieces Per Hour</u>	<u>Wage Rate</u>	<u>Direct Cents Per Piece</u>	<u>Piggyback Factor</u>	<u>Premium Pay Factor</u>	<u>Premium Pay Adjust</u>	<u>Total Cents Per Piece</u>	<u>Weighted Cents Per Piece</u>
Bundle Sorting	10,000	---	---	---	---	---	---	0.0000	0.0000
<u>Outgoing RBCS</u>									
ISS	375	6,854	\$28.68	0.4184	2.067	1.0200	0.0084	0.8732	0.0328
RCR	10,375							0.5140	0.5333
REC	3,213	676	\$18.06	2.6699	1.546	1.0200	0.0534	4.1811	1.3435
OSS	10,612	8,994	\$28.68	0.3189	1.798	1.0200	0.0064	0.5797	0.6152
LMLM	1,020	3,890	\$28.68	0.7371	2.576	1.0200	0.0147	1.9136	0.1952
<u>Outgoing Primary</u>									
Automation	186	5,740	\$28.68	0.4996	2.296	1.0200	0.0100	1.1572	0.0215
Manual	599	488	\$28.68	5.8713	1.382	1.0200	0.1174	8.2316	0.4932
<u>Outgoing Secondary</u>									
Automation	2,081	8,340	\$28.68	0.3439	2.270	1.0200	0.0069	0.7873	0.1638
Manual	198	479	\$28.68	5.9821	1.382	1.0200	0.1196	8.3869	0.1659
<u>Incoming RBCS</u>									
ISS	0	4,374	\$28.68	0.6556	2.067	1.0200	0.0131	1.3682	0.0000
RCR	0							0.5140	0.0000
REC	0	676	\$18.06	2.6699	1.546	1.0200	0.053		

**QBRM
COST SHEET**
Source: USPS-LR-I-472

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<u>Entry Activities</u>	<u>TPH</u>	<u>Pieces Per Hour</u>	<u>Wage Rate</u>	<u>Direct Cents Per Piece</u>	<u>Piggyback Factor</u>	<u>Premium Pay Factor</u>	<u>Premium Pay Adjust</u>	<u>Total Cents Per Piece</u>	<u>Weighted Cents Per Piece</u>
Bundle Sorting	10,000	---	---	---	---	---	---	0.0000	0.0000
Outgoing RBCS									
ISS	0	6,854	\$28.68	0.4184	2.067	1.0200	0.0084	0.8732	0.0000
RCR	0							0.5140	0.0000
REC	0	676	\$18.06	2.6699	1.546	1.0200	0.0534	4.1811	0.0000
OSS	0	8,994	\$28.68	0.3189	1.798	1.0200	0.0064	0.5797	0.0000
LMLM	0	3,890	\$28.68	0.7371	2.576	1.0200	0.0147	1.9136	0.0000
Outgoing Primary									
Automation	10,005	5,740	\$28.68	0.4996	2.296	1.0200	0.0100	1.1572	1.1577
Manual	480	488	\$28.68	5.8713	1.382	1.0200	0.1174	8.2316	0.3951
Outgoing Secondary									
Automation	715	8,340	\$28.68	0.3439	2.270	1.0200	0.0069	0.7873	0.0563
Manual	120	479	\$28.68	5.9821	1.382	1.0200	0.1196	8.3869	0.1004
Incoming RBCS									
ISS	0	4,374	\$28.68	0.6556	2.067	1.0200	0.0131	1.3682	0.0000
RCR	0							0.5140	0.0000
REC	0	676	\$18.06	2.6699	1.546	1.0200	0.0534	4.1811	0.0000
OSS	0	8,134	\$28.68	0.3526	1.664	1.0200	0.0071	0.5937	0.0000
LMLM	0	3,890	\$28.68	0.7371	2.576	1.0200	0.0147	1.9136	0.0000
Incoming MMP									
Automation AADC	3,745	5,576	\$28.68	0.5143	2.186	1.0200	0.0103	1.1348	0.4250
Manual ADC	331	604	\$28.68	4.7479	1.382	1.0200	0.0950	6.6565	0.2204
Incoming SCF/Primary									
Automation	8,675	5,908	\$28.68	0.4854	2.061	1.0200	0.0097	1.0103	0.8765
Manual	559	641	\$28.68	4.4725	1.382	1.0200	0.0895	6.2705	0.3504
5-Digit Barcode Sort									
	0	5,908	\$28.68	0.4854	2.061	1.0200	0.0097	1.0103	0.0000
Incoming Secondaries									
Auto Carrier Route	0	5,224	\$28.68	0.5489	2.100	1.0200	0.0110	1.1634	0.0000
Auto 3-Pass DPS	0	13,361	\$28.68	0.2146	1.957	1.0200	0.0043	0.4244	0.0000
Auto 2-Pass DPS	1,303	8,755	\$28.68	0.3276	2.323	1.0200	0.0066	0.7675	0.1000
Man Inc Sec Final At Plant	790	523	\$28.68	5.4831	1.382	1.0200	0.1097	7.6872	0.6076
Man Inc Sec Final At DU	280	1,155	\$28.68	2.4839	1.382	1.0200	0.0497	3.4825	0.0977
Box Section Sort, DPS	56	2,365	\$28.68	1.2128	1.382	1.0200	0.0243	1.7003	0.0095
Box Section Sort, Other	834	1,179	\$28.68	2.4319	1.382	1.0200	0.0486	3.4095	0.2844

Source: LR-I-146

(10)
MODEL COST = **4.6810**

22%

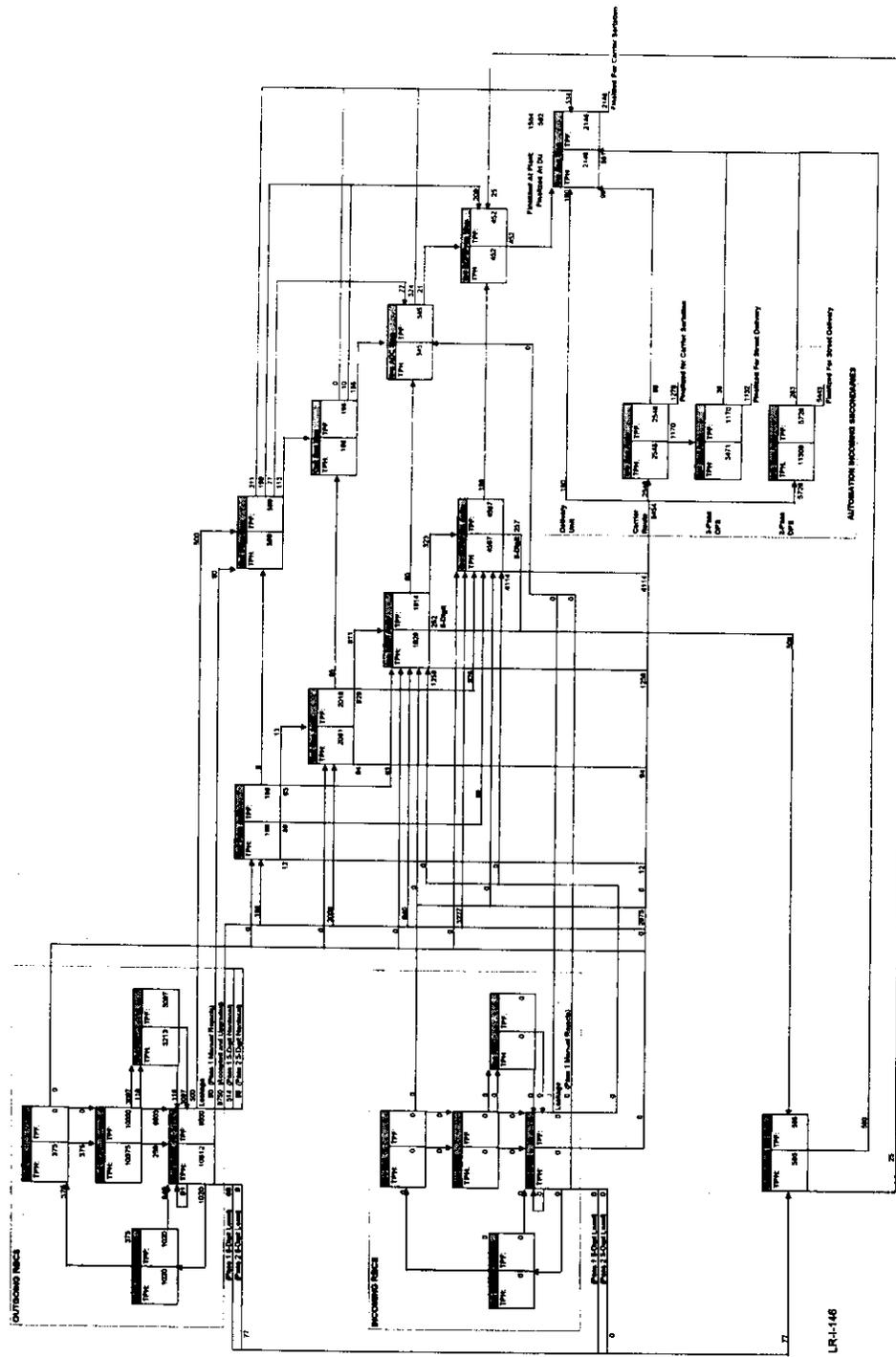
- | | |
|---|-------------------------------|
| (1) Values From QBRM FLOW MODEL Spreadsheet (L-5) | (7) [(6) - 1] * (4) |
| (2) Values From Productivities Spreadsheet (L-12) | (8) (4) * (5) + (7) |
| (3) Values From Wage Rates Spreadsheet (L-13) | (9) (1) * (8) / 10,000 Pieces |
| (4) [(3) * (100 cents/dollar)] / (2) | (10) Sum (9) |
| (5) Values From Piggybacks Spreadsheet (L-15) | |
| (6) Values From Wage Rates Spreadsheet (L-13) | |

HANDWRITTEN MAIL FLOW MODEL

ENTERED = [] 1000 PROCESSED = [] 1000

ENTRY POINTS:

Out Mail	0	In Mail	0
Out Mail	1000	In Mail	1000
Out Mail	2000	In Mail	2000
Out Mail	3000	In Mail	3000
Out Mail	4000	In Mail	4000
Out Mail	5000	In Mail	5000
Out Mail	6000	In Mail	6000
Out Mail	7000	In Mail	7000
Out Mail	8000	In Mail	8000
Out Mail	9000	In Mail	9000
Out Mail	10000	In Mail	10000



Source: LR-146

ACCEPT/UPGRADE RATES

Description	Source	FCM Sing Pc Hand
MLOCR Accept	Docket No. R97-1, USPS LR-H-130	8.36%
MLOCR Upgrade	Docket No. R97-1, USPS LR-H-130	57.42%
MPBCS OSS Accept	Docket No. R97-1, USPS LR-H-130	87.35%
MPBCS OSS Upgrade	Docket No. R97-1, USPS LR-H-130	92.99%
MPBCS OSS Errors:		
OSS Refeeds	Docket No. R97-1, USPS LR-H-130	0.96%
LMLM - ID Tag	Docket No. R97-1, USPS LR-H-130	3.95%
LMLM - Postnet Barcode	Docket No. R97-1, USPS LR-H-130	6.79%
Manual	Docket No. R97-1, USPS LR-H-130	0.95%
Other Accept Rates		
Outgoing BCS Primary	USPS LR-I-107	95.20%
Outgoing BCS Secondary	USPS LR-I-107	95.80%
Incoming BCS MMP	USPS LR-I-107	95.80%
Incoming BCS SCF/Primary	USPS LR-I-107	95.70%
Incoming BCS Secondary Carrier Route	USPS LR-I-107	96.10%
Incoming BCS Secondary DPS Pass 1	USPS LR-I-107	97.50%
Incoming BCS Secondary DPS Pass 2	USPS LR-I-107	97.50%
Incoming CSBCS Secondary Pass1	USPS LR-I-107	98.90%
Incoming CSBCS Secondary Pass2,3	USPS LR-I-107	98.90%

Source: LR-I-146

**HANDWRITTEN
MAIL FLOW DENSITIES**

From Operation	-----OUTGOING-----			-----INCOMING-----			Total
	Refeeds	Primary	Secondary	Mgd Mail Program	SCF/ Primary	Inc Sec	
Out ISS Auto		3.22%	28.61%	3.86%	37.94%	26.36%	100.00%
Out OSS Auto		2.12%	16.26%	10.74%	36.88%	34.00%	100.00%
Out Prim Auto	0.05%		7.29%	35.74%	50.38%	6.59%	100.00%
Out Sec Auto	3.08%			47.12%	48.01%	4.87%	100.00%
Inc ISS Auto				2.41%	32.39%	65.19%	100.00%
Inc OSS Auto				0.92%	20.28%	78.81%	100.00%
inc MMP Auto	0.79%				20.43%	79.57%	100.00%
Out Prim Man			18.86%	12.81%	33.18%	35.15%	100.00%
Out Sec Man				94.94%	5.06%	0.00%	100.00%
Inc ADC Man					6.18%	93.82%	100.00%

Source: LR-I-146

**QBRM
MAIL FLOW DENSITIES**

From Operation	Refeeds	-----OUTGOING-----		-----INCOMING-----			Total
		Primary	Secondary	Mgd Mail Program	SCF/ Primary	Inc Sec	
Out ISS Auto		3.22%	28.61%	3.86%	37.94%	26.36%	100.00%
Out OSS Auto		2.12%	16.26%	10.74%	36.88%	34.00%	100.00%
Out Prim Auto	0.05%		7.29%	35.74%	50.38%	6.59%	100.00%
Out Sec Auto	3.08%			47.12%	48.01%	4.87%	100.00%
Inc ISS Auto				2.41%	32.39%	65.19%	100.00%
Inc OSS Auto				0.92%	20.28%	78.81%	100.00%
Inc MMP Auto	0.79%				100.00%	0.00%	100.00%
Out Prim Man			18.86%	12.81%	33.18%	35.15%	100.00%
Out Sec Man				94.94%	5.06%	0.00%	100.00%
Inc ADC Man					6.18%	93.82%	100.00%

Source: LR-I-146

EXHIBIT KE-ST-1A

Page 9 of 15

FY 99 REMOTE BAR CODE SYSTEM (RBCS) STATISTICS

Source: Corporate Information System (CIS)

AP	LEAKAGE PERCENT	RCR FINAL PERCENT
1	5.7%	39.0%
2	5.8%	41.1%
3	5.7%	44.1%
4	4.9%	47.5%
5	5.8%	49.9%
6	5.6%	50.3%
7	5.5%	50.4%
8	5.5%	50.9%
9	5.5%	51.3%
10	5.7%	51.4%
11	6.1%	50.3%
12	6.2%	50.0%

Source: LR-I-146

**HANDWRITTEN
MISCELLANEOUS FACTORS**

Description	Source	Value
AADC Trays Entered At MMP Operation	Docket No. R97-1, LR-H-128	79.60%
Local Originating	FY 98 ODIS	11.65%
RCR Finalization Rate	RCR 2000 D.A.R.	69.03%
RBCS Leakage Rate	Operations Leakage Target	5.00%
Automation Incoming Secondaries		
Delivery Unit (ZIP Code)	F.A.S.T. (AP 8 FY 99)	2.13%
Carrier Route	F.A.S.T. (AP 8 FY 99)	15.74%
3-Pass DPS (CSBCS)	F.A.S.T. (AP 8 FY 99)	14.40%
2-Pass DPS (DBCS)	F.A.S.T. (AP 8 FY 99)	<u>67.73%</u>
		100.00%
Finalized At Least To Carrier Route At Plant	F.A.S.T. (AP 8 FY 99)	73.81%
Post Office Box Destination	MC95-1, USPS-T-101	8.90%

Source: LR-I-146

**QBRM
MISCELLANEOUS FACTORS**

<u>Description</u>	<u>Source</u>	<u>Value</u>
AADC Trays Entered At MMP Operation	Docket No. R97-1, LR-H-128	79.60%
Local Originating	FY 98 ODIS	11.65%
RCR Finalization Rate	RCR 2000 D.A.R.	69.03%
RBCS Leakage Rate	Operations Leakage Target	5.00%
Automation Incoming Secondaries		
Delivery Unit (ZIP Code)	F.A.S.T. (AP 8 FY 99)	0.00%
Carrier Route	F.A.S.T. (AP 8 FY 99)	0.00%
3-Pass DPS (CSBCS)	F.A.S.T. (AP 8 FY 99)	0.00%
2-Pass DPS (DBCS)	F.A.S.T. (AP 8 FY 99)	<u>100.00%</u>
		100.00%
Finalized At Least To Carrier Route At Plant	F.A.S.T. (AP 8 FY 99)	73.81%
Post Office Box Destination	MC95-1, USPS-T-10I	8.90%

Source: LR-I-146

MARGINAL PRODUCTIVITIES

Description	Source	(A) Variability Factor	(B) MODS Productivity	(B) / (A) Marginal Productivity	Cents/ Piece
Outgoing ISS	USPS LR-I-107	0.999	6,847	6,854	
Incoming ISS	USPS LR-I-107	0.999	4,370	4,374	
RCR		---	---	---	0.514
REC	USPS LR-I-107	0.995	673	676	
LMLM	USPS LR-I-107	0.995	3,871	3,890	
Outgoing OSS	USPS LR-I-107	0.998	8,976	8,994	
Incoming OSS	USPS LR-I-107	0.998	8,118	8,134	
Outgoing BCS Primary	USPS LR-I-107	0.998	5,729	5,740	
Outgoing BCS Secondary	USPS LR-I-107	0.998	8,323	8,340	
Incoming BCS MMP	USPS LR-I-107	0.998	5,565	5,576	
Incoming BCS SCF/Primary	USPS LR-I-107	0.998	5,896	5,908	
Incoming BCS Secondary Carrier Route	USPS LR-I-107	0.998	5,214	5,224	
Incoming BCS Secondary DPS (2 Pass)	USPS LR-I-107	0.998	8,737	8,755	
Incoming CSBCS Secondary DPS (3 Pass)	USPS LR-I-107	0.998	13,334	13,361	
Manual Outgoing Primary	USPS LR-I-107	0.995	486	488	
Manual Outgoing Secondary	USPS LR-I-107	0.995	477	479	
Manual MMP	USPS LR-I-107	0.995	601	604	
Manual Incoming SCF/Primary	USPS LR-I-107	0.995	638	641	
Manual Incoming Secondary, MODS Site	USPS LR-I-107	0.977	511	523	
Manual Incoming Secondary Non MODS Sites	USPS LR-I-107	0.990	1,143	1,155	
P.O. Box Sort DPS	USPS LR-I-107	0.990	2,341	2,365	
P.O. Box Sort Other	USPS LR-I-107	0.993	1,171	1,179	

Source: LR-I-472

TEST YEAR WAGE RATES

<u>Description</u>	<u>Source</u>	<u>Wage Rate</u>
Remote Encoding Centers (REC)	USPS LR-I-106, Part VIII, Table VIII, p. VIII-2	\$18.059
Other Mail Processing	USPS LR-I-106, Part VIII, Table VIII, p. VIII-2	\$28.678
Premium Pay Adjustment Factor	USPS-T-21, Attachment 15	1.02

Source: LR-I-472

EXHIBIT KE-ST-1A

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FY 99 AP 11 MODS VOLUMES

OPER NO.	DESCRIPTION	MODS VOLUME	% VOL	
971	Outgoing Primary OSS - MPBCS	1,165,065,900	66.64%	74.35%
972	Outgoing Secondary OSS - MPBCS	134,827,300	7.71%	
271	Outgoing Primary OSS - DBCS	10,881,900	0.62%	25.65%
272	Outgoing Secondary OSS - DBCS	437,523,900	25.03%	
		1,748,299,000	100.00%	
871	Outgoing Primary - MPBCS	44,560,100	3.79%	
891	Outgoing Primary - DBCS	1,132,472,500	96.21%	
		1,177,032,600	100.00%	
872	Outgoing Secondary - MPBCS	78,226,000	7.57%	
892	Outgoing Secondary - DBCS	954,707,700	92.43%	
		1,032,933,700	100.00%	
973	Incoming MMP OSS - MPBCS	214,099,200	49.72%	93.36%
974	Incoming SCF OSS - MPBCS	108,182,800	25.12%	
975	Incoming Primary OSS - MPBCS	79,754,100	18.52%	6.64%
273	Incoming MMP OSS - DBCS	11,669,200	2.71%	
274	Incoming SCF OSS - DBCS	14,820,100	3.44%	
275	Incoming Primary OSS - DBCS	2,109,100	0.49%	
		430,634,500	100.00%	
873	Incoming MMP - MPBCS	401,941,100	19.34%	
893	Incoming MMP - DBCS	1,675,940,800	80.66%	
		2,077,881,900	100.00%	
874	Incoming SCF - MPBCS	878,379,200	25.56%	37.06%
875	Incoming Primary - MPBCS	395,607,400	11.51%	62.94%
894	Incoming SCF - DBCS	1,411,489,600	41.07%	
895	Incoming Primary DBCS	751,728,200	21.87%	
		3,437,204,400	100.00%	
876	Incoming Secondary Carrier Route - MPBCS	562,735,000	31.65%	
896	Incoming Secondary Carrier Route - DBCS	1,215,011,900	68.35%	
		1,777,746,900	100.00%	

Source: LR-I-146

PIGGYBACK FACTORS

<u>EQUIPMENT</u> <u>DESCRIPTION</u>	<u>SOURCE</u>	<u>VALUE</u>
MLOCR	USPS LR-I-465	2.067
REC	USPS LR-I-465	1.546
LMLM	USPS LR-I-465	2.576
MPBCS	USPS LR-I-465	1.617
DBCS	USPS LR-I-465	2.323
CSBCS	USPS LR-I-465	1.957
Manual	USPS LR-I-465	1.382
Manual P.O. Box	USPS LR-I-465	1.382
<u>OPERATION</u> <u>DESCRIPTION</u>		<u>VALUE</u>
Outgoing ISS		2.067
Outgoing REC		1.546
Outgoing OSS		1.798
Outgoing LMLM		2.576
Outgoing Prim Auto		2.296
Outgoing Prim Man		1.382
Outgoing Sec Auto		2.270
Outgoing State Dist Man		1.382
Incoming ISS		2.067
Incoming REC		1.546
Incoming OSS		1.664
Incoming LMLM		2.576
Incoming MMP Auto		2.186
Incoming ADC Man		1.382
Incoming SCF/Prim Auto		2.061
Incoming SCF/Prim Man		1.382
Incoming 5-Digit Barcode Sort		2.061
Incoming Sec Auto Carrier Route		2.100
Incoming Sec Auto 3-Pass DPS		1.957
Incoming Sec Auto 2-Pass DPS		2.323
Man Inc Sec Final At Plant		1.382
Man Inc Sec Final At DU		1.382
Box Section Sort, DPS		1.382
Box Section Sort, Other		1.382

Source: LR-I-472

Exhibit KE-ST-1B

**Derivation of High Volume
And Low Volume QBRM
Per Piece Costs
(Updated Version of Exhibit KE-1B)**

Determination of Updated Per-Piece Costs for QBRM (high-volume)

Counting Activities

TY01

Method of final piece count:

BRMAS software report

EOR report

Manual

Weight Averaging/Counting Machines

% Volume

51.6% [1]

28.1% [1]

11.2% [1]

9.2% [1]

Hourly wage rate, Postage Due Clerk

\$28.73 [2]

Piggyback factor, Business Reply

1.468 [3]

	(1)	(2)	(3)	(4)
	Pieces	Direct	Direct &	% of
	<u>Per Hour</u>	<u>Cost/Piece</u>	Indirect	<u>Pieces</u>
			<u>Cost/Piece</u>	
QBRM Counting				
Manual Hand Counting, Postage Due Unit	2,746	\$0.0105	\$0.0154	11.2%
Manual Counting by Weight Averaging, Postage Due Unit	68,078	\$0.0004	\$0.0006	9.2%
Weighted cost per piece (direct & indirect)			\$0.0018	[4]

Footnotes:

- [1] Counting % (High Vol) spreadsheet (page 4)
- [2] USPS-LR-I-106, Part VIII, Table VIII, p. VIII-2
- [3] MODS 18 piggyback, USPS-T-21, Attachment 14
- [4] Sum [(3) * (4)]
- (1) Exhibit KE-1C at 3
- (2) [2] / (1)
- (3) [3] * (2)
- (4) [1] as appropriate

Determination of Updated Volume Variable Costs of QBRM (Low Volume)

Counting, Rating and Billing Activities

TY01

Method of final piece count:	% Volume	Adj % Volume
BRMAS software report	14.2% [1]	21.0% [2]
EOR report	19.3% [1]	23.3% [2]
Manual	47.2% [1]	48.0% [2]
Weight Averaging/Counting Machines	19.3% [1]	7.6% [2]

Method of Postage Due Activities:	% Volume	Adj % Volume
BRMAS	6.5% [3]	9.6% [4]
PERMITS/other software	47.6% [3]	46.0% [5]
Manual Other	45.9% [3]	44.4% [5]

Hourly wage rate, Postage Due Clerk	\$28.73 [6]
Piggyback factor, Business Reply	1.468 [7]

	(1)	(2)	(3)	(4)
	Pieces <u>per hour</u>	Direct <u>Cost/Piece</u>	Direct & Indirect <u>Cost/Piece</u>	% of <u>Pieces</u>
QBRM Processing				
PERMITS Rating and Bill Generation Productivity, Postage Due Unit	7,461 [8]	\$0.0039	\$0.0057	46.0%
Manual Rating/Billing Productivity, Postage Due Unit	745 [8]	\$0.0386	\$0.0566	44.4%
Manual Hand Counting, Postage Due Unit	2,746 [9]	\$0.0105	\$0.0154	48.0%
Counting by Weight Averaging & SCM's, Postage Due Unit	68,078 [9]	\$0.0004	\$0.0006	7.6%
Weighted cost per piece (direct & indirect)			\$0.0351 [10]	

Footnotes

- [1] BRM Practices Survey for all QBRM (2) [6] / (1)
- [2] Counting % (Low Vol) spreadsheet (page 5) (3) [7] * (2)
- [3] 1999 Survey, see Appendix 1, Table 2 (4) [2], [4] or [5] as appropriate
- [4] [3] adjusted to reflect % of pieces (rated by BRMAS/counted by BRMAS)
- [5] Based on [3] for remaining percentage
- [6] MODS 18 piggyback, USPS-T-21, Attachment 14
- [7] Sum [(3) * (4)]
- [8] USPS-LR-I-160, Section B at 3 (Revised 3/2/00)
- [9] Exhibit KE-1C at 3
- [10] Sum [(3) * (4)]

**Determination of Updated Per-Piece Costs for All QBRM
Counting, Rating and Billing Activities
TY01**

	(1) Annual Volume (000)	(2) Number of Accounts	(3) Direct & Indirect Cost/Piece	(4) Direct & Indirect Cost/Acc't	(5) Total Annual Cost (000)
<u>QBRM Processing</u>					
High Volume Counting	345,000 [1]		\$0.0018 [5]		\$611
High Volume Rating and Billing		300 [4]		\$ 2,785 [7]	\$836
Low Volume Counting, Rating and Billing	116,610 [2]		\$0.0351 [6]		\$4,097
Total	461,610 [3]				\$5,543 [8]
Unit Cost					\$0.0120 [9]

Footnotes:

- [1] Counting % (High Vol) spreadsheet (page 4)
 [2] Counting % (Low Vol) spreadsheet (page 5)
 [3] [1] + [2]
 [4] KE-LR-1 at 1
 [5] High Volume QBRM spreadsheet (page 1)
 [6] Low Volume QBRM spreadsheet (page 2)
 [7] USPS-LR-I-160, Section B at 1
 [8] Sum (Col 5)
 [9] [8] / [3]
 (5) (1) x (3) and (2) x (4)

Derivation of Counting Method %'s for QBRM
High Volume (300,000+ Pieces)

Customer Category	Volumes By Counting Method					Total Volume
	Manual	EOR	BRMAS	Counting Machine	Weight Averaging	
[1] Top 77 %	24,419,257 10%	56,759,319 24%	141,653,407 59%	2,129,276 1%	16,441,663 7%	241,402,921 100%
[2] Top 77 less #1,2 %	19,914,150 14%	56,759,319 39%	51,161,793 35%	2,129,276 1%	16,441,663 11%	146,406,200 100%
[3] Total Volume						345,000,000
[4] Remaining Vol	14,091,259	40,162,914	36,202,103	1,506,676	11,634,126	103,597,079
[5] Total High Vol %	38,510,516 11%	96,922,233 28%	177,855,511 52%	3,635,952 1%	28,075,789 8%	345,000,000 100%

[1] Exhibit KE-1D at 1

[2] Id.

[3] LR-KE-1 at 1

[4] [3] - [1] for total, counting methods based on [2]

[5] [1] + [4]

Derivation of Counting Method %'s for QBRM
 Low Volume (Less than 300,000 Pieces Per Account)

		Volumes By Counting Method					
	Customer Category	Manual	EOR	BRMAS	Counting Machine	Weight Averaging	Total Volume
[1]	Total High Vol %	38,510,516 11%	96,922,233 28%	177,855,511 52%	3,635,952 1%	28,075,789 8%	345,000,000 100%
[2]	Vol 100,000+ Pcs/Acct						415,167,825
[3]	Top 77 less #1,2 %	19,914,150 14%	56,759,319 39%	51,161,793 35%	2,129,276 1%	16,441,663 11%	146,406,200 100%
[4]	Vol Small but 100,000+	9,544,217	27,202,932	24,520,217	1,020,494	7,879,965	70,167,825
[5]	Total TY QBRM Vol						461,610,000
[6]	Remaining Small Vol	46,442,175					46,442,175
[7]	Total Low Volume %	55,986,392 48%	27,202,932 23%	24,520,217 21%	1,020,494 1%	7,879,965 7%	116,610,000 100%

[1] Counting % (High Vol) spreadsheet (p. 4)

[2] KE-LR-1 at 2

[3] Exhibit KE-1D at 1

[4] [3] - [1] for total, counting methods based on [3]

[5] USPS-LR-I-168 (total TY QBRM Volume)

[6] Assume remaining volume is manually counted

[7] [4] + [6]

Derivation of Counting Method %'s for QBRM
All QBRM

		Volumes By Counting Method					
Customer Category	Manual	EOR	BRMAS	Counting Machine	Weight Averaging	Total Volume	
[1] Low Volume	55,986,392	27,202,932	24,520,217	1,020,494	7,879,965	116,610,000	
[2] High Volume	38,510,516	96,922,233	177,855,511	3,635,952	28,075,789	345,000,000	
[3] Total Volume	94,496,908	124,125,165	202,375,727	4,656,446	35,955,754	461,610,000	
%	20%	27%	44%	1%	8%	100%	

[1] Counting % (Low Volume) spreadsheet (page 5)

[2] Counting % (High Volume) spreadsheet (page 4)

[3] [1] + [2]

Exhibit KE-ST-1F

**Comparison of QBRM
Net Revenue Contribution
To Institutional Costs for
USPS and KE Proposals
(Updated Version of Exhibit KE-F)**

EXHIBIT KE-ST-1F

Page 1 of 1

Updated Comparison of Contributions to Institutional Costs Under the
KE and USPS QBRM High Volume Fee Proposals

<u>KE PROPOSAL</u>	<u>Fee</u> <u>Per Account</u>	<u>Total</u> <u>Accounts</u>	<u>Fee Per</u> <u>Piece</u> <u>(Cents)</u>	<u>Total</u> <u>Volume</u> <u>(000)</u>	<u>Total</u> <u>(\$000)</u>
<u>Annual Fee:</u>					
Revenues	\$ 12,000	300 [1]			\$ 3,600
Vol Variable Costs	\$ 2,856	300			\$ 857
Contribution to Inst Costs	\$ 9,144	300			\$ 2,743
<u>Unit Fee (High Volume)</u>					
Revenues			0.50	345,000 [4]	\$ 1,725
Vol Variable Costs			0.18 [2]	345,000	\$ 611
Contribution to Inst Costs			0.32	345,000	\$ 1,114
<u>Unit Fee (Low Volume)</u>					
Revenues			4.50	116,610 [5]	\$ 5,247
Vol Variable Costs			3.51 [3]	116,610	\$ 4,097
Contribution to Inst Costs			0.99	116,610	\$ 1,151
Total Contrib to Inst Costs					\$ 5,008
<u>USPS PROPOSAL</u>					
<u>Annual Fee:</u>					
Revenues	\$ 3,400	1,358			\$ 4,617
Vol Variable Costs	\$ 2,856	1,358			\$ 3,879
Contribution to Inst Costs	\$ 544	1,358			\$ 738
<u>Unit Fee (High Volume)</u>					
Revenues			3.00	153,870	\$ 4,616
Vol Variable Costs			2.05	153,870	\$ 3,152
Contribution to Inst Costs			0.95	153,870	\$ 1,464
<u>Unit Fee (Low Volume)</u>					
Revenues			6.00	307,740	\$ 18,464
Vol Variable Costs			4.92	307,740	\$ 15,127
Contribution to Inst Costs			1.08	307,740	\$ 3,337
Total Contrib to Inst Costs					\$ 5,540
Change in Contribution					\$ (532)

[1] KE-LR-1 at 1

[2] Exhibit KE-ST-1B at 1

[3] Exhibit KE-ST-1B at 2

[4] KE-LR-1 at 1

[5] 461,610 - [4]

1 CHAIRMAN GLEIMAN: It is my understanding that
2 there were no requests for cross examination on either of
3 these two pieces of testimony. If anybody wishes to cross
4 examine on them, speak up now.

5 There doesn't appear to be anybody who wishes to
6 cross examine and I know there are no questions from the
7 bench, so Mr. Bentley, we want to thank you for your
8 appearance again today and your two additional pieces of
9 testimony on behalf of MMA and Keyspan.

10 We thank you and you're excused.

11 THE WITNESS: Thank you.

12 [Witness excused.]

13 CHAIRMAN GLEIMAN: We'll reconvene at 2:45.

14 [Whereupon, at 1:58 p.m., the hearing recessed for
15 lunch, to reconvene this same day at 2:45 p.m.]

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A F T E R N O O N S E S S I O N

[2:47 p.m.]

1
2
3 CHAIRMAN GLEIMAN: Mr. Baker, we are about ready,
4 if you want to introduce your witness.

5 MR. BAKER: The Newspaper Association of America
6 calls William Wilson.
7 Whereupon,

8 WILLIAM WILSON,
9 a witness, having been called for examination and, having
10 been first duly sworn, was examined and testified as
11 follows:

12 CHAIRMAN GLEIMAN: Counsel, you may proceed.

13 MR. BAKER: Mr. Chairman, I am handing the witness
14 two copies of a document designed NAA-RT-1 and entitled "The
15 Rebuttal Testimony of William Wilson on Behalf of the
16 Newspaper Association of America."

17 DIRECT EXAMINATION

18 BY MR. BAKER:

19 Q I ask this witness, is this prepared by him or
20 with his supervision?

21 A Yes, sir.

22 Q And do you adopt it as your testimony in this
23 proceeding?

24 A I do.

25 MR. BAKER: Mr. Chairman, I move the

1 administration of this document into evidence as the
2 witness' rebuttal testimony.

3 CHAIRMAN GLEIMAN: Is there an objection?

4 [No response.]

5 CHAIRMAN GLEIMAN: Hearing none, counsel, if you
6 would please provide two copies to the court reporter, I
7 will direct that the rebuttal testimony of Witness Smith be
8 received into evidence and transcribed into the record.

9 [Rebuttal Testimony of William
10 Wilson, NAA-RT-1, was received into
11 evidence and transcribed into the
12 record.]

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DUPLICATE

RECEIVED
NAA-RT-1
Aug 14 3 30 PM '00

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

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DOCKET NO. R2000-1

REBUTTAL TESTIMONY OF
WILLIAM WILSON
ON BEHALF OF THE
NEWSPAPER ASSOCIATION OF AMERICA

Please address questions
concerning this testimony to:

William B. Baker
Wiley, Rein & Fielding
1776 K Street, N.W.
Washington, DC 20006-2304
(202) 719-7000

August 14, 2000

1 **I. INTRODUCTION**

2 My name is William Wilson. I am Director of Special Projects for the
3 Knight Ridder Company, and am a representative of the Newspaper Association
4 of America on the Mailers Technical Advisory Committee (MTAC). I was
5 previously Director of Target Marketing for Knight Ridder. Knight Ridder is a
6 California based communications company which owns and operates 31 daily
7 and 22 non-daily newspapers, and which also operates a variety of Total Market
8 Coverage (TMC) and other mail programs. Knight Ridder also owns and
9 operates an extensive Internet business, and still does some alternate delivery
10 business.

11 Newspaper Total Market Coverage (TMC) programs involve the delivery
12 of newspaper advertising inserts (or advertising preprints) to newspaper
13 subscribers and the delivery of that same insert to newspaper non-subscribers
14 through the use of alternate delivery, postal delivery or a combination of the two
15 methods. Through our TMC programs, we are able to provide much higher
16 household penetration for an insert than newspaper delivery alone could provide.
17 We can do this in either the total market or a zoned segment of that market. We
18 can generally zone down to a single ZIP code with our newspaper inserts, and
19 we can generally zone down to a single postal carrier route with our mailed TMC
20 programs.

21 I am intimately familiar with the alternate delivery industry, having been
22 closely involved in Knight Ridder's alternate delivery efforts. After the 1995
23 postal reclassification case, Knight Ridder shut down most of its alternate

1 delivery businesses and moved the products back into the mail. Today, almost
2 all our products are in the mail. The remaining alternate delivery systems we
3 have are in Miami, Florida; Biloxi, Mississippi; and Fort Wayne, Indiana.

4 **A. Purpose of Testimony**

5 My testimony has three interrelated purposes:

- 6 1. To rebut SMC witness Harry Buckel's competitive assessment
7 of the alternate delivery industry. The alternate delivery
8 industry is not gaining ground over mail, but is in dire straits.
9 This is due to postal reclassification, which not only lowered
10 periodical rates but also created the ECR subclass with its
11 associated price reductions, as evidenced by AAPS witness
12 White. I believe that the Postal Service has taken so much
13 business away from the alternate delivery industry over the last
14 four years (including almost all of Knight Ridder's) that the only
15 reason that the industry still exists is because of its delivery of
16 product samples and telephone books, plus their ability to sell
17 enough advertising to meet their goals. I believe that lowering
18 the pound rate could easily be the death knell of the alternate
19 delivery industry.
- 20
- 21 2. To remind the Commission of something overlooked by
22 witnesses Roger Merriman and Orlando Baro -- that
23 newspapers are not only in the business of delivering

1 advertising, but also are in the business of delivering news, and
2 that the news which is critical to the well-being of our political,
3 economic, and social life is paid for by advertising. For every
4 dollar that shifts out of newspaper advertising and into local
5 non-newspaper saturation advertising companies, there is a
6 corresponding decrease in the distribution of the news to the
7 American people.

8 This is in contrast to the free publication shoppers of
9 witnesses Merriman and Baro, whose advertising revenue does
10 not support a news product, except for the occasional public
11 service notice.

12
13 3. To clarify that newspapers are not in direct competition with
14 the Postal Service, but are in direct competition with companies
15 that distribute local retail advertising—commonly on a saturation
16 basis in either a shopper or shared mail format. The direct
17 competition to the Postal Service is from alternate delivery.
18 Newspapers should be viewed as postal competitors only when
19 they run an alternate delivery of their own to deliver the TMC
20 product. Almost all large papers now use the mail, and not
21 alternate delivery.

22 From a layman's perspective, it appears to me that the
23 Postal Service's attempt to reduce prices on heavyweight

1 products is a veiled attempt to drive advertising out of
2 newspapers and into saturation all-mail products. This situation
3 is not like the competition between the Postal Service with
4 parcel or overnight companies. They are head-to-head
5 competitors. We are not. For this reason, I want to remind the
6 Commission that it is not appropriate to compare Standard Mail
7 ECR pound rates and newspaper preprint rates.

8 Put simply, the proper comparison for the Standard ECR
9 pound rate is to the rates charged by alternate delivery
10 companies. The proper comparison for the rates newspapers
11 charge an individual preprint advertiser is to the rates that
12 saturation mailers like *Advo* or *The Flyer* charge an individual
13 preprint advertiser.

14 **B. Personal Background**

15 I have been involved in the newspaper business for over 35 years. I
16 started my career in advertising sales at the *Minneapolis Star and Tribune*, which
17 was owned by Cowles Media at the time. I subsequently moved into sales
18 management. While at the *Star and Tribune*, I built its first newspaper part-run
19 insert delivery program and in 1978, I designed and managed the first weekly
20 non-subscriber delivery program for the *Star Tribune* to deliver K-Mart
21 supplements using private carriers. I subsequently became Advertising Director
22 for *The Yakima (WA) Herald Republic*, then a Harte-Hanks property. Later, I
23

1 started and managed a company that published community telephone directories
2 for Cowles Media Co. in Denver and Minneapolis/St. Paul.

3 In 1981, I moved back to the newspaper business in Minneapolis, and in
4 1983, I went to Knight Ridder and *The Saint Paul Pioneer Press*. While there I
5 built another weekly non-subscriber delivery program. This time the program
6 used mail to deliver to non-subscriber households a free newspaper section, K-
7 Mart supplements, and other advertising inserts.

8 I joined Knight Ridder's corporate staff in 1987 as Director of Sales
9 Training and Development, and in 1992 was named Target Marketing Director.
10 As Target Marketing Director, my business assignment was to assist Knight
11 Ridder Newspapers in the building and operation of targeted or total market
12 coverage delivery programs. During that time, I oversaw the building of alternate
13 delivery programs, and the movement of most of Knight Ridder's TMC programs
14 out of alternate delivery and into mail.

15 Recently, I accepted an assignment to assist in the startup of a number of
16 new Knight Ridder businesses involving the targeted distribution of information.
17 In addition to these assignments, I have also accepted emergency assignments
18 over the years to help our newspapers and their communities recover from
19 natural disasters in Miami, Biloxi, and Grand Forks.

20 **II. ALTERNATE DELIVERY**

21 **A. History of Newspaper Non-subscriber Delivery**

22 I know the Commission doesn't want a history lesson, dating back from
23 when the first advertising piece was delivered to someone in the United States,

1 so let me keep this fairly current. From the newspaper industry perspective,
2 alternate delivery to non-subscriber households has been around for a long time.
3 In 1970, the *Lexington (KY) Herald-Leader* developed *Blue Grass Today*, a free
4 weekly news and advertising product, and had their newspaper carriers deliver it
5 to all of the non-subscriber households in Lexington. They changed this practice
6 when they moved to morning delivery of the newspaper and could not get the
7 newspaper onto the subscriber's doorstep in time for them to read it. The
8 solution was to use another delivery force to deliver the weekly product. The
9 *Herald-Ledger* maintained this alternatively delivered publication until the mid
10 '90's, when they cancelled it and moved their non-subscriber delivery program to
11 mail.

12 In the late '70s, many other newspapers began to look at similar weekly
13 non-subscriber delivery programs to meet the requests of K Mart and grocers
14 who wanted to reach every household in a community regardless of whether or
15 not they subscribed to the newspaper. If a company published an afternoon
16 newspaper, it contracted with their newspaper carriers to deliver the non-
17 subscriber product during the day. Once the newspaper moved to morning
18 delivery, this interfered with timely newspaper delivery. Newspapers either
19 cancelled the delivery program or contracted a separate delivery force to deliver
20 their non-subscriber product. These non-subscriber delivery programs came into
21 and went out of existence as advertisers requested or cancelled their saturation
22 programs.

23 The market changed by the early '90s when almost all of the grocers, and

1 some of the major discounters, started requiring that their advertisement reach
2 every household within a certain radius of their store locations. Newspapers
3 began seriously looking at how to turn saturation delivery programs into viable
4 businesses.

5 **B. Past Use of Alternate Delivery**

6 In 1992, Knight Ridder established a corporate goal to have their
7 newspapers develop non-subscriber delivery programs to enhance the
8 penetration of newspaper supplement delivery. We elected to build alternate
9 delivery programs in most cases.

10 We did this because there was an emerging market for the private
11 delivery of high density weekly and monthly magazines, plus product samples,
12 and because many publishers did not believe that the Postal Service would treat
13 them fairly. One major problem was that our saturation mail competitors had
14 already "reserved" a specific day of the week with the Postal Service for the
15 delivery of their product, and had received a strong USPS commitment to see
16 that the product was delivered on that day. At that time, the Postal Service
17 would not give a similar delivery commitment for that same day to another
18 mailer. Hence, when a newspaper's marketing plans called for delivery on the
19 same day that our competition was distributed, alternate delivery was the only
20 option.

21 We eagerly contracted with Publishers Express or Alternate Postal
22 Delivery Inc. for the delivery of magazines because we knew that our non-
23 subscriber insert delivery business alone would not be sufficient to meet our

1 start-up delivery costs. Our plans were to use magazine delivery revenue to
2 offset the low volume and revenue that our non-subscriber delivery programs
3 would have as we started to build that business.

4 By 1995, we had 25 of our 28 of our newspapers using alternatively-
5 delivered TMC programs to deliver inserts, magazines, shoppers and product
6 samples within their markets. These hand delivery companies were delivering to
7 around 5.1 million households every week. In-the-mail programs were delivering
8 to about 350,000 households every week.

9 In 1996, because of postal reclassification, we started to lose the
10 magazine delivery business. When this revenue base moved back to postal
11 delivery, the economics of alternate delivery changed so that mail delivery
12 became more economical. Our newspapers began the conversion process from
13 private delivery programs to mailed delivery programs.

14 Between 1996 and 1998, I assisted our newspaper-owned delivery
15 companies as they converted from 90 percent hand-delivered non-subscriber
16 programs to 80 percent postal delivery. When this business went back to the
17 mail, hundreds of delivery agents, supervisors and packaging employees lost
18 their jobs across Knight Ridder markets, as well as other newspaper markets.

19 In fairness, I should add that the loss of magazines alone did not cause
20 the entire downfall of our alternate delivery businesses. Problems with delivery
21 accuracy and reliability were constant issues in our alternate delivery programs.
22 Even today, these can be issues. Price is far from the only consideration in
23 deciding whether to use alternate delivery or mail.

1 This is an issue well known to advertisers. Indeed, as I traveled the
2 country selling non-subscriber delivery programs to insert advertisers, many of
3 them expressed a preference to have us mail our non-subscriber products rather
4 than deliver them through alternate delivery forces. We listened to them.

5 **C. Current Use of Alternate Delivery**

6 Today, only three of our 31 newspapers with non-subscriber delivery
7 programs use an alternate delivery force to deliver their products, and even with
8 those three—Miami, Biloxi, and Fort Wayne—part of the delivery is by mail. In
9 these cases, our newspapers choose to continue with an alternate delivery force
10 because they have an adequate source of lower-cost labor. In South Florida, the
11 alternate delivered product is demographically targeted towards a Hispanic
12 audience.

13 Knight Ridder newspapers were not the only newspapers to move most of
14 their non-subscriber products out of alternate delivery and into the mail. Most
15 large daily newspapers did likewise. Thus, the TMC program of papers such as
16 the *Chicago Tribune*, *Boston Globe*, *Los Angeles Times*, *Baltimore Sun*,
17 *Milwaukee Journal-Sentinel*, *Atlanta Journal and Constitution*, *Washington Post*,
18 *Cincinnati Inquirer*, *Cleveland Plain-Dealer*, *Sacramento Bee* etc. are in the mail.
19 A major exception is *Newsday* in New York City and Long Island. Its program
20 still uses alternate delivery very successfully, although even at that, *Newsday's*
21 program also mails tens of thousands of saturation jackets every week. Part of
22 the reason for *Newsday's* long term success in alternate delivery is that in past
23 years poor postal delivery in the New York metropolitan area created a positive

1 environment for alternatively delivered products. That poor postal delivery
 2 provided the alternative delivery company (from which *Newsday* purchased the
 3 delivery system) the opportunity to develop a top notch delivery program.

4 **D. Assessment of the Alternate Delivery Industry**

5 In my professional opinion Harry Buckel is dead wrong when he states:

6 "Since I last appeared before the Postal Rate Commission, I believe the
 7 competitive scale has tipped against shared mailers and in favor of hand delivery
 8 options."¹

9 1. *Newspaper delivery is not alternative delivery*

10 Mr. Buckel seems to be trying to include newspaper delivery in his "hand
 11 delivery options" category. This is incorrect.

12 Let me clarify what I see as the differences.

13 First, newspaper delivery is *the selling and delivery* of a newspaper by an
 14 agent to a willing buyer, eager to consume the information contained therein,
 15 including newspaper inserts. Thus, newspapers deliver a paid product.

16 Alternate delivery and postal delivery, including saturation shoppers, shared mail
 17 packages, and non-subscriber TMC packages generally do not. They deliver
 18 free, unsolicited print pieces to audiences and sometimes get a very negative

19 _____
 20 ¹ He cites two examples—New York/Long Island and Philadelphia. I have
 21 already discussed the New York situation. He fails to mention that the
 22 Philadelphia alternate delivery program is a hybrid program owned and operated
 23 by Advo. The Philadelphia Advo program uses mail to deliver saturation pieces
 in the suburbs surrounding Philadelphia and Carrier Boys of America, a private
 delivery program to deliver inserts in Philadelphia proper. I believe it is
 successful because the alternate delivery program leverages its revenue from
 the mailed suburban pieces to create an area wide saturation program.

1 reaction to the delivery. This is why both mailed and private delivery "do not
2 deliver" lists are growing rapidly.

3 Second, newspapers deliver a significant news product, whose
4 advertising portions pay for the collection, production, and distribution of the
5 news. Alternate delivery and postal delivery, including saturation shoppers, and
6 shared mail packages tend not to be news products.

7 Third, newspaper delivery is a seven day per week process while other
8 forms of delivery, including saturation shared mailers, TMC products, and
9 alternate delivery tend to be performed one day per week.

10 Fourth, while the quality and timing of delivery often is a problem with
11 alternate delivery systems and even with the postal system, it is never a problem
12 with newspaper delivery systems. The Postal Service measures its success in
13 percent of on-time delivery. We measure it on an entirely different scale—"daily
14 misses" per thousand. When comparing the two, it is easy to see that
15 newspaper delivery is much more reliable.

16 A Postal Service on-time rate of 92% translates into 8 misses per hundred
17 or *80 misses per thousand*. The average newspaper measurement is *1.5 misses*
18 *per thousand*, according to Mr. John Murray, NAA's Vice President of Circulation.
19 The newspaper is also on time, all the time. Subscribers expect their paper on
20 their doorstep at 6:00 a.m. and they get it, day after day, week after week.

21 Thus, while Mr. Buckel would love to have you believe that newspaper
22 inserts are alternate delivered, they are not. They are NEWSPAPER delivered,
23

1 and there is a big difference.²

2 2. *The state of alternative delivery*

3 Our past and present experience with alternate delivery leads us to see
4 that it is an industry in the midst of hard times, struggling to survive. This
5 industry has high delivery costs, a growing shortage of unskilled labor to deliver
6 the products, and the economic inability to deliver on more than one day per
7 week. Moreover, there is an unwillingness on the part of medium and large
8 retailers to trust the delivery of their inserts by any method which excludes either
9 newspapers (with their traditionally high cash register response and consistently
10 reliable delivery record) or the mail (with its consistency and with the value of the
11 mailbox). Life is very tough for alternate delivery companies. With only one
12 weekly delivery to sell into and razor thin margins, the loss of one insert from
13 their shared delivery jacket can make the difference between profit and loss in
14 any given week.

15 The Association of Alternate Postal Service's (AAPS) best estimate of
16 what has happened to this industry provides some real insight into this struggling
17 industry. AAPS estimates that in 1995 they had over 300 distributing companies
18 as members of their association. This year they have 100 members directly
19 involved in hand delivery. That is a loss of 66%. This downsizing of an industry
20 was caused by the loss of magazine business and the creation of ECR rates
21 after the 1995 postal reclassification case when at least 200 alternate delivery

22 _____
23 ² In contrast, the newspaper non-subscriber portion of TMC programs are not
"newspaper delivered" and thus are capable of being delivered either by the

1 companies, mostly owned and operated by newspapers went out of existence.

2 Despite what Mr. Buckel says, the alternate delivery business is not
3 gaining over postal delivery, but is barely surviving.

4 **III. THE IMPORTANT ROLE OF ADVERTISING IN SUPPORTING** 5 **NEWSPAPER EDITORIAL CONTENT**

6 It is important to remember that this discussion of Postal Service rate
7 changes isn't just about saturation mail competition with newspapers (as Mr.
8 Merriman and Mr. Baro seem to say), or postal competition with private delivery.
9 It's also about the impact on the editorial product that the newspapers deliver,
10 and upon which America's democratic, social and economic systems depend.

11 This is a much larger issue, and it is an issue that is not at odds with a
12 healthy Postal Service, despite what our competitors like to say.

13 Direct mailing companies and their associations have an attitude towards
14 the Postal Service and competition with the private sector that I find very
15 interesting. Let me give you an example. A few years ago, the Postal Service
16 established a program which they called Neighborhood Mail. Under this program,
17 small businesses could bring in preprinted inserts, not addressed, and in bulk
18 boxes. All they had to do was tell the postal employee which ZIP codes they
19 wanted the pieces saturation delivered to, which day to deliver them, and pay for
20 the mailing. The Postal Service would do the rest. The mailing industry rose up
21 in wrath at this "cutting out the middleman" program and chastised the Postal
22 Service for straying from its core mission and jeopardizing universal delivery and
23

Postal Service or by alternate delivery.

1 the integrity of the Postal system. They killed the program within months.

2 Yet, when the Postal Service takes actions to compete with newspapers—
3 an action that results in decreasing the amount of news distributed to the
4 American public—the attitude of direct mailers miraculously changes to cheers
5 as a federal government agency tries to drive advertising out of newspapers and
6 into their products for them. In this “not-in-my backyard” positioning, I just have
7 not figured out why government competition with mailers is horrible while
8 government favoring mailers over newspapers is honorable. Direct mailers’
9 efforts to tar the newspaper industry in the postal arena as an anti-mail industry
10 which constantly seeks to undermine and destroy the postal system is just dead
11 wrong.

12 The truth of the matter is that all newspapers depend on a healthy postal
13 system. We depend not only on standard mail for the delivery of our advertising
14 products (for large and small newspapers), but also on periodical mail for the
15 delivery of the newspaper itself (for smaller papers). However, even more
16 importantly, all newspapers depend on a healthy delivery system and on First
17 Class for the delivery of the hundreds of thousands of checks that make up our
18 revenue. We have no retail outlets, very few cash sales and not many credit
19 card sales. Our revenue arrives at our offices every day in small checks, mailed
20 at First Class rates.

21 Thus, of the three classes of mail, a healthy First Class may well be the
22 most important. Whether large and small newspapers could thrive if Standard
23 mail and Periodical mail service was unhealthy seems to me an open question.

1 Our businesses would suffer enormously, however, if First Class services were
2 thrown into disarray.

3 This country needs newspapers. Newspapers have been the prime
4 conduit for disseminating information in this country since before the
5 Revolutionary War, and no one seriously asserts that this is going to change
6 anywhere in the near future. Newspapers have provided news which both
7 toppled and elected presidents. They tell us, at any time during the day that we
8 choose to read them, what has happened or is about to happen, and suggest
9 ways to get involved and impact change.

10 To the degree that the dissemination of editorial content shifts to the web,
11 newspapers will still be the major conduit. Indeed, today there are over 1200
12 newspaper web sites in the United States—4,000 worldwide—and seven of the
13 top 20 online news sites (by reach) are newspaper sites.³

14 I personally know from my experiences with the Grand Forks fire and
15 flood, and hurricane disasters in Miami and Biloxi that when catastrophe strikes,
16 newspapers are sometimes a community's only source of information about what
17 happened, the extent of damages, and what people can do to seek help or find
18 lost loved ones. And, this wonderful source of information we know as "news"

19
20

21 ³ Not that the web hasn't changed the industry. It has and it is. For instance, in
22 Washington D.C., we see—for the first time in years—an afternoon edition of a
23 major paper being published every day. For over a year now,
washingtonpost.com has effectively "published" a 5:00 p.m. afternoon edition of
the *Washington Post*, with new and different editorial content. This content
reflects later afternoon deadlines, and new and breaking stories.

1 comes to us all as a result of advertising. Without advertising, there would be no
2 news.

3 Let me explain why the loss of advertising affects the news. For years,
4 newspapers were designed and produced around a formula of news space
5 directly related to ROP advertising volume. That ratio was traditionally set
6 around 40% news pages and 60% advertising pages. That is, if ROP advertising
7 had 40 pages total in tomorrow's paper, then news would be allocated 28 pages,
8 to yield a total ROP advertising to news ratio of 41% in a series of sections
9 totaling 68 pages. On a daily basis, these percentages were not necessarily
10 hard and fast because of the constraints of press configurations. However, they
11 were accurate guidelines, and overall held true.

12 Newspapers saw the conversion of ROP advertising pages to preprints
13 during the '70s and '80s while at the same time the competition for readers grew
14 more competitive. The shift from ROP to preprints hurt the newspaper's editorial
15 product, and caused less news to be disseminated. News departments
16 throughout the country became very concerned over their shrinking news
17 allocation in the face of a growing need for more information to be placed into
18 evolving new sections of the newspaper (e.g., technology sections, weekend
19 sections, entertainment sections, etc.)

20 Finally, in the '90s newspapers began to allocate news space based on
21 business plans, and not just on ROP advertising pages. This is the system in
22 place today, although not necessarily at all papers. However, this system has its
23 limitations as well. For example, if a newspaper's business plan budgets a

1 certain percentage of a year's total income for the news department, and if the
2 newspaper falls below the revenue plan by, say 5%, the news department—like
3 the rest of the departments—will be forced to cut its expenses by 5%. The
4 easiest way to save 5% is to cut the news allocation and save on labor and
5 newsprint. Expense cutting is necessary to maintain the profit margins that the
6 market demands we maintain, and for which we pay taxes at a rate of 40
7 percent.

8 On the brighter side, most newspapers are in the midst of aggressive
9 campaigns to both maintain current readers and win new readers with, among
10 other initiatives, more news space. These efforts are expensive, but they are
11 working. In the last several years, they have resulted in expansion of newspaper
12 readership.

13 All these efforts are funded with advertising dollars—dollars that we do not
14 want the federal government to put at risk through efforts to pull advertising
15 dollars out of newspapers and into direct mail. Mind you, I am not saying that
16 there should be no direct mail competition for newspapers. There is competition
17 and there always will be. We acknowledge it, and have embraced direct mail
18 ourselves. However, this is a competitive marketplace in which newspapers and
19 direct mailers should fight out. We believe that the Postal Service should stay
20 out of this battle.

21 Newspaper advertising supports the news product of the American print
22 media, and without that news product, this country would be in trouble. These
23 are issues that the testimony of witnesses Baro and Merriman totally ignore.

1 While Mr. Baro and Mr. Merriman's shopper publications both provide valuable
2 services to businesses by delivering advertising information in a timely fashion,
3 neither provides news and editorial content, and neither has to contend with an
4 internal advertising-to-news cross-subsidy, as newspapers do.

5 Moreover, while both surely do serve small businesses, so do we and so
6 do the 1200 daily newspapers and more than 8,000 weekly newspapers
7 distributed each week throughout the United States. Mr. Baro can cloak his
8 request for a postal rate decrease proposal in the mantle of saving small,
9 independent businesses. He doesn't have to be concerned with the impact of
10 government competition on his news content. He has no news product. He did
11 not go door to door after Hurricane Andrew offering free copies of his shopper
12 containing numerous pages of editorial on how to get help or find loved ones.
13 Mr. Baro may claim the need for lower rates to improve his competitive situation
14 and his bottom line. However, he is as free to cut prices and offer special deals
15 to large advertisers as the newspaper industry is. He is also free to add news
16 content, charge a price for his product, and better serve his community by
17 distributing news content.

18 What Mr. Baro doesn't discuss is the social cost to the community when
19 advertisers run in free shoppers with no news content instead of running in
20 newspapers, where they support news content. And it doesn't really make any
21 difference whether the newspaper is the *Miami Herald*, or our Spanish language
22 newspaper *El Nuevo Herald*, or any of the other hundred or so newspapers that
23 exist in South Florida and compete with both the *Herald* and *The Flyer*. The

1 point is not whether we have the advertising, or whether a newspaper or shopper
2 we own has the advertising, but whether advertising is cross-subsidizing an
3 news product.

4 **IV. DISTINGUISHING BETWEEN MARKETS**

5 **A. Overview**

6 Newspapers compete with saturation direct mailers and with other print
7 media. Newspapers and saturation mailers are in the advertising and news
8 business. The Postal Service competes with alternate delivery companies. Both
9 the Postal Service and alternate delivery are in the delivery business.

10 The rates corresponding to the Postal Service's Standard A ECR rates in
11 general, and the pound rate in particular, are the rates charged by alternate
12 delivery companies, not newspaper rates. Except to the degree that a
13 newspaper is running an alternate delivery company, the Postal Service does not
14 compete with newspapers.

15 I believe that it is improper for the Postal Service to price Standard ECR
16 mail with an eye toward helping direct mailers by driving advertising out of
17 newspapers and over to the direct mailers. The situation is not like the head-to-
18 head competitive situation between the Postal Service and overnight delivery
19 companies. I think the public is basically unaffected by whether their packages
20 are delivered by UPS or by the USPS. In contrast, whether ads are in a
21 newspaper or in the mailbox does have an external public impact.

22

23

1 Consequently, if one wants to compare preprint prices of newspapers, the
2 proper comparison is to the preprint prices of saturation mailers. The rates both
3 a newspaper and a saturation mailer charge for an individual preprint are not
4 intended to cover all the costs of the entire product (whether newspaper, TMC,
5 or shared mail package). Both a newspaper and a saturation mailer depend on
6 selling other ads to cover all the costs of their business (which, in a newspaper's
7 case, includes the entire news product).

8 **B. Newspaper Preprint Advertising Rates are Comparable To**
9 **Saturation Mailers' Rates**

- 10 1. *For an advertiser, the relevant comparison is what it costs to*
 use newspaper TMC vs. saturation mailer

11 For most advertisers who want to saturate an area with their advertising
12 message and are not concerned with whether or not it is distributed with the
13 newspaper, the cost per thousand for delivery of that message is a very
14 important consideration, although timeliness and quality of delivery also rank
15 high. After all, it doesn't matter much what it costs to deliver a piece if the piece
16 never makes it to the home or is delivered too late to meet the advertiser's
17 promotion dates.

18 Although some advertisers may use solo mail on occasion, I am talking
19 about the preprint advertisers that choose whether to be delivered in the
20 newspaper TMC program or in a saturation mail program. And I can tell you that
21 for those advertisers, the relevant comparison is between the rates we charge,
22 and the rates charged by companies such as Advo and *The Flyer*.

23

1 To be successful, we must persuade customers that our newspaper
2 subscriber and non-subscriber TMC program is as good or better than other
3 saturation programs, and costs them around the same. By the time that we talk
4 to them, they have received bids from the saturation mailers for inclusion of their
5 message into their shared mail package. Therefore, our rates have to be
6 competitive with saturation mailers in order for us to get business.

7 What makes things harder for us is that, unlike saturation mailers, our
8 newspaper rates must cover all our costs, not just costs associated with
9 preparing and mailing an ad piece. So in addition to meeting competition, our
10 advertising rates must also help us defray the cost of reporting, editing, and
11 publishing the editorial content of our newspaper. While newspapers also have
12 revenue from subscription and single-copy sales, that revenue pays for the
13 distribution of the newspaper itself.

14 2. *Newspaper rates reflect the costs of weight*

15 I take exception to the testimony of Mr. Merriman on behalf of the
16 Saturation Mail Coalition that "[t]hese same advertisers are also doing inserts
17 into private carrier free papers or newspapers that have circulation in
18 metropolitan areas, like Rapid City or Sioux Falls that we do not cover. These
19 advertisers do not have to pay such finely tuned weight-related advertising costs
20 to distribute their inserts with non postal distributors." If Mr. Merriman is saying
21 that newspaper rates are not "finely tuned weight-related", he is simply wrong.

22 Speaking for the newspaper industry, I can tell you that newspaper
23 programs have used finely tuned, weight-related expenses for years for pricing

1 purposes. Thirty years ago, when we started pricing inserts in our paid
2 circulation newspapers we did so on the basis of the overall size and number of
3 pages making up the insert (which is another way of pricing by weight of insert).
4 When we first considered delivery of inserts with our newspapers we realized
5 that bigger products caused more weight and bulk, which resulted in the need for
6 more trucks, storage and handling space and fewer products carried at a time by
7 our carriers. We adjusted our rates accordingly to compensate for this
8 difference.

9 When we developed non-subscriber distribution programs to respond to
10 advertisers' requests for increased household penetration beyond the
11 newspaper subscriber only, we initiated TMC rates that were blended. By
12 "blended," I mean a rate which is the same for the newspaper-delivered portion
13 and the non-subscriber delivered portion. These rates certainly reflect the
14 additional costs of delivery caused by heavier-weighted ads.

15 The result is that our blended rate pricing methodology (newspaper plus
16 non-subscriber distribution) is very similar to that of shared mail saturation
17 mailers – which differs *considerably*⁴ from the rates of the Postal Service. Just
18 like Mr. Merriman's company, our expenses also rise with weight and size of the
19 inserts we distribute. In many daily newspaper markets both newspaper and
20 non-subscriber carriers are paid additional compensation based upon the size of
21 the insert package to be delivered. Many papers pay increased compensation

22 _____
23 ⁴ For instance, I have been told that in Miami *The Flyer* recently charged under 2
cents to distribute an insert.

1 for delivery of catalogs or other unusual products.

2 3. *Saturation mailers are free to cut deals with large advertisers*

3 Mr. Baro, in his testimony on behalf of the AISOP would have you believe
4 that "[b]ecause our distribution costs are based on postal weights and rates we
5 cannot offer special deal (sic) to our biggest customers." This is nonsense.

6 Saturation mailers have been free to cut deals with large advertisers for as long
7 a period as newspaper TMC companies have, and they regularly do so.

8 I live in Miami and through my work with the *Herald*, I know that Mr. Baro
9 and *The Flyer* publication which he represents have used frequency of
10 advertiser-deliveries per year and size of insert as a benchmark for special
11 pricing to entice their biggest customers and potential customers to use their
12 distribution services on a regular basis. If this were not the case, how could they
13 explain why a South Florida food store, with a four page tabloid insert, who
14 agrees to deliver over 200,000 copies every week for a year, gets a rate of under
15 2 cents per insert when the actual postal delivery rate is 11.3 cents per insert, or
16 more.

17 The answer is that large advertisers provide *The Flyer* with a reason to go
18 to each household every week and *The Flyer* provides the large advertiser with a
19 very low rate to get this business. They use that availability to go forth and sell
20 other advertisers into the package to be delivered.

21 For years, the key to success in both the TMC business and the shared
22 mail business has been to find a large paying advertiser to be your anchor and
23 contract with you to deliver its insert to every household in a ZIP code every

1 week. When one finds an advertiser of this type, they price delivery very
2 competitively because they know that they will be able to sell other advertising
3 into the same areas the large advertiser wants inserts delivered to.

4 It is also important to remember that under the present Standard A rates
5 any jacketed product under the 3.3 ounce breakpoint still pays the same delivery
6 fee as a jacket right at the weight break. Many jacketed saturation mailers
7 estimate the trend line of the weight of their jackets and offer four weeks free
8 delivery in selected ZIP code "deals" to advertisers to lure them out of their
9 competitors' package. They can do this because the saturation mailers know, in
10 most cases, that their only costs will be inserting the product into the appropriate
11 jacket.

12 4. *A comparison of Miami Herald rates to our rivals'*

13 While our rate cards are public information and available throughout the
14 market, we don't share our best rates with our competitors nor they with us.
15 However, advertisers talk. A lot. The bottom line from our discussions with
16 customers is that, in healthy saturation markets the competition for customers is
17 so intense that delivery rates tend to be very comparable. In South Florida, it
18 looks like this:

19 For an advertiser who wants someone to print and deliver an 8.5" x 11"
20 light weight advertising piece every week, *The Flyer*, *Advo* and *The Miami Herald*
21 all would charge around 2.5 cents to 4.0 cents per household. Food store
22 advertisers are getting their four page tabloids delivered weekly for anywhere
23 from 1.5 to 2.2 cents per household. And finally, an advertiser with a 12 page

1 tabloid insert, wishing saturation of the full market on a weekly basis, is getting
2 their product delivered for around 3.0 cents per household.

3 **C. Postal Service compared to Alternate Delivery**

4 The *Miami Herald's* TMC program uses both alternate delivery (25%) and
5 mail (75%) to deliver its program. When we decide whether to use alternate
6 delivery or the mail for the non-subscriber delivery, among the things we look at
7 is the cost for delivering the entire package by an alternate delivery company
8 compared to the Postal Service.

9 When we do that, we do not consider the rates that we or our saturation
10 mail competitors charge the advertisers. Those rates are what an advertiser
11 pays to participate in a package containing other ads. In deciding on the means
12 of delivery of the advertising package, the relevant comparison is the cost of
13 alternate delivery and the postal cost.

14 By cost of alternate delivery, we mean the total, or fully loaded, cost of
15 reaching every household. Mr. Merriman in his response to AAPS
16 interrogatories (AAPS/SMC-T2-7) states "there was consensus among several
17 publishers at this group that they were able to find and hire independent
18 contractors in city areas to pay rates of 4 cents per paper and one-half cent to
19 one cent per insert."

20 I am not aware of any location that pays that little for delivery, but in any
21 case that would not be the total cost of alternate delivery. The total, or fully
22 loaded, costs also include shipping of the product to handling areas, packaging
23 the inserts, delivery to distribution facilities, management of the facility,

1 generation of delivery manifests, management of the delivery function,
2 management of the quality control verification function, plus all of the
3 infrastructure functions such as payroll, accounts payable and accounts
4 receivable. When all of these costs are loaded into the system, the total cost of
5 alternate delivery is much higher. For example, in Miami, our minimum fully-
6 loaded cost (which does not include any margin for profit) for our yearly average
7 piece, which is about 5 ounces, is 19 cents.

8 **V. CONCLUSION**

9 Contrary to the testimony of other witnesses, the alternate delivery
10 industry is in dire straits. Alternate delivery simply does not today pose a serious
11 competitive threat to the Postal Service that would justify reducing the pound
12 rate for Standard A ECR mail.

13 In addition, the Commission should remember that the setting of rates for
14 advertising mail has consequences outside of the mail. For every dollar of
15 newspaper advertising that shifts out of newspapers and into direct mail,
16 economic support for news is lost.

17 Finally, newspapers do not compete with the Postal Service. Alternate
18 delivery competes with the Postal Service. Newspapers compete with saturation
19 mailers, and our rates are comparable with theirs.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

August 14, 2000


William B. Baker

1 MR. BAKER: Mr. Wilson.

2 CHAIRMAN GLEIMAN: What did I say?

3 MR. BAKER: Smith.

4 CHAIRMAN GLEIMAN: Oh, geez. Where am I?

5 THE WITNESS: It is almost as common in the north
6 as --

7 CHAIRMAN GLEIMAN: I apologize. I am trying to
8 figure out I got that one. There is not even a Smith on the
9 list. That was the last round of hearings when we had Smith
10 and Van-Ty-Smith and another Smith, I think.

11 In any event, I apologize, sir. Let me get
12 refocused here.

13 Four parties have asked for oral
14 cross-examination, Advo, the Alliance of Independent Store
15 Owners and Professionals, and Mail Order Association of
16 America and the United States Postal Service. Is there
17 anybody left that wants to cross-examine this witness?

18 MR. ALVERNO: Mr. Chairman, the Postal Service has
19 no intent to conduct oral cross-examination at this time.

20 CHAIRMAN GLEIMAN: Mr. Alverno, you just got
21 points. Thank you, sir.

22 MR. ALVERNO: Thank you.

23 CHAIRMAN GLEIMAN: Anybody else want to try for
24 points?

25 Mr. McLaughlin, you get to cross-examine first,

1 but you get to ask two less questions than you would have
2 otherwise asked because you got to cross-examine your own
3 witness before and ask two questions of your own witness.

4 MR. McLAUGHLIN: Wait a minute. I thought I
5 wasn't allowed to cross-examine my own witness.

6 [Laughter.]

7 CHAIRMAN GLEIMAN: My recollection is that we let
8 you get away with it there.

9 MR. McLAUGHLIN: Was that on the Miami experience?

10 CHAIRMAN GLEIMAN: I think it had to do with a
11 press release on redirect and how much money who made and
12 what percentage that was and what-have-you. So you are on
13 your honor to ask two less questions than you would have
14 otherwise asked.

15 CROSS-EXAMINATION

16 BY MR. McLAUGHLIN:

17 Q Good afternoon, Mr. Wilson. It is good seeing you
18 again.

19 A Thank you.

20 Q Just for the record, Mr. Wilson, I did have some
21 involvement with Advo and Knight Ridder in times past. Mr.
22 Wilson, a good chunk of your testimony deals with private
23 delivery and the TMC operations that Knight Ridder has had.
24 Can you just generally describe your TMC operations, and, in
25 particular, are any of those TMC operations saturation

1 delivery?

2 A I can describe them, and let me start by answering
3 your second question first. We consider almost all of our
4 TMC operations to be saturation delivered in that within the
5 zip codes in our DMA's where we deliver our paper, we combine
6 the use of the newspaper and inserts in the newspaper with
7 some form of a non-subscriber either shared mail or shared
8 delivery jacket to non-subscriber households to reach 95 to
9 100 percent of the households in each zip code.

10 Q In other words, from the standpoint of the
11 advertiser, the advertiser is getting saturation coverage,
12 but it is accomplished through two different media, one as a
13 newspaper insert to subscribers, and the other as private
14 delivery or mail to non-subscribers, is that correct?

15 A That's correct, sir.

16 Q Okay. But you don't have any private delivery
17 operations that go to every single household?

18 A We don't any more.

19 Q And that is because, I take it, that really all
20 you need, and all the advertiser wants is the combined
21 saturation coverage to the newspaper plus the TMC?

22 A That's correct.

23 Q Can you give us a rough idea, I am sure it varies
24 from market to market, just a rough idea of what the average
25 household coverage is of the non-subscriber TMC

1 distribution?

2 A You are correct, it varies dramatically by market.
3 Let me give you two examples that I think might help here.
4 In Miami, for example, on a home delivery basis, and this is
5 what we have to measure it at, because it is for penetration
6 of the households, on a home delivery basis, our home
7 delivery penetration weekdays is about 21 percent, and on
8 Sundays, it runs around 27 or 28 percent.

9 In St. Paul, we get just the opposite effect. We
10 have a weekday home delivery penetration of about 62 to 64
11 percent, and Sunday may run as high as 75 to 78 percent.

12 Q Okay. Let me just make sure I understand what we
13 are talking about. The 21 percent in Miami, that means that
14 the TMC covers 21 percent of the households?

15 A The newspapers cover 21 percent of the households.

16 Q The newspaper covers 21 percent. And so your TMC
17 covers, presumably, the remainder of that?

18 A That's correct.

19 Q Okay. And in the South Florida market of Miami,
20 what is the penetration of the newspaper there?

21 A Defining the South Florida market by Miami Herald
22 terms, which is ^{half} ~~all~~ of Broward County and ^{9/11} ~~half~~ of Dade
23 County, our household penetration, that is what carriers
24 deliver to households on a weekday, Sunday basis is 21 and
25 27 percent.

1 Q Okay.

2 A Roughly.

3 Q Is that specifically the area where you have your
4 privately delivered TMC?

5 A It is, it is all of Dade County and a portion of
6 South Broward County.

7 Q And where does the mail portion cover?

8 A The mail portion covers a number of zip codes from
9 the very south area of Dade County or Homestead, Florida
10 City, all the way to about 12 zip codes in southeast Broward
11 County. Are you going to ask me about the penetration?

12 Q Yeah, what is the penetration in those areas?

13 A The mail areas?

14 Q Yes.

15 A It is about 90 percent to 92 percent.

16 MR. BAKER: Penetration of what?

17 BY MR. McLAUGHLIN:

18 Q Yeah. Let me clarify that again. The 92 percent
19 is that the mail goes to 92 percent or the newspaper goes to
20 92 percent?

21 A The combination of mail and the newspaper goes to
22 92 percent of the occupied dwelling units. That is very
23 important to state in South Florida, as you know.

24 Q Okay. But in those mail areas, what is the mail
25 penetration of households?

1 A It would average somewhere between 50 percent and
2 80 or 82 percent, depending upon the household penetration
3 by zip code.

4 Q Now, when you are running a non-subscriber TMC
5 program, and this would be true whether it is private
6 delivery or mail, you do have fluctuations in the households
7 that get the TMC product because your subscribers change
8 over time, isn't that something called -- I think the term
9 might be "churn," where you have subscriber churn?

10 A You are correct.

11 Q And so compared to a saturation private delivery
12 operation, for example, you have more volatility in the list
13 to whom you are distributing, whether by mail or by private
14 delivery?

15 A That's correct.

16 Q Turn to page 22, please.

17 Starting at line 9, you talk about developing
18 blended rates for your TMC programs where you offer a single
19 rate to the advertiser for a combined use of the TMC plus
20 the newspaper insert; do you see that?

21 A That's correct.

22 Q Is the blended rate higher or lower than the
23 newspaper-only insert rate?

24 A The blended rate is lower.

25 Q The blended rate is lower than the newspaper-only

1 delivery?

2 A That the newspaper-only insert rate.

3 Q Is that true for both the mailed TMC and a
4 privately-delivered TMC?

5 A I believe it is. And I'm tempted to go beyond and
6 try to explain that to you. I don't know if you want me to
7 or not.

8 Q Would you explain that to me?

9 A Thank you, sir.

10 Newspaper insert rates are set using two factors:
11 They're set using the dimensions and number of pages in the
12 piece, and they are also set by the total volume ^{distribution} ~~distributed~~
13 ^{of} ~~in~~ the piece.

14 So, for example, if you were buying 15 zip codes
15 and there -- let's say that there were 75,000 households in
16 those 15 zip codes and you bought the newspaper-only
17 portion, the newspaper only portion might be, let's say,
18 25,000 or 30,000 households that you would deliver to.

19 And so a rate for that would be based upon the
20 dimensions and the number of pages in the piece times 35,000
21 or 35,000 households.

22 If you bought a TMC program and you bought, say,
23 all 75,000 households, the rate would be for the 75,000
24 volume and a rate per thousand would decrease accordingly.

25 Our rates decrease by the bigger volume that we

1 use.

2 Q Okay, so, this is just a pure volume-based rate
3 differential, typical of many kinds of volume-based; the
4 more you mail, the more you insert, the lower the rate you
5 get; is that right?

6 A That's only partially true. It's volume-based,
7 and it's also based upon the physical characteristics of the
8 insert.

9 [Pause.]

10 Q Well, for a 1.5 ounce circular, there would be a
11 lower rate if you do the entire saturation circulation
12 through the combination of the newspaper plus either mail or
13 private delivery?

14 A That would tend to be the case.

15 Q Could you turn to page 25, please?

16 [Pause.]

17 And I guess actually it carries over. It's the
18 bottom of page 25 and the top of page 26 where you talk
19 about the total or fully-loaded costs of private delivery.

20 This, I take it, is all of the costs that would be
21 involved in having private delivery as a stand-alone
22 operation; is that correct?

23 A That's correct.

24 Q Now, then, if a mailer, either a shared mailer or
25 a shopper publication, were making a decision about whether

1 to stay in the mail or go into private delivery and set up
2 their own operation or whatever, wouldn't there be some
3 costs that would be incurred whether you're in the mail or
4 whether you're in private delivery?

5 A That's correct; there would be.

6 Q Okay, so in that kind of a comparison, you
7 wouldn't do a fully-loaded cost comparison; you would look
8 at what are the incremental cost differences between one
9 form of distribution versus the other?

10 A That's true.

11 Q Okay.

12 So, from that standpoint then, the figure that you
13 give for your full-loaded cost of a five-ounce piece,
14 privately-delivered of being 19 cents, there again, that
15 includes some costs that might be incurred, whether you were
16 using mail or whether you were using private delivery?

17 A In this case, it does not, because in Miami, the
18 Miami Herald runs two types of operation, the mailed
19 non-subscriber delivery, and alternate delivery,
20 non-subscriber delivery program, and they use the same sales
21 staff to sell products into both of those.

22 So they set that aside and they don't include
23 things like cost of manufacturing -- that's a print process
24 -- or sales costs that are associated with it. These are
25 what the pure, what I call running the delivery company

1 fully-loaded.

2 Q It doesn't include sales costs?

3 A It does not, sir.

4 Q Now, if you were to compare that to Postal costs,
5 is the Postal rate itself a fully-loaded Postal cost?

6 A For our mailing area, the answer is that it is not
7 a fully-loaded Postal cost.

8 Q In other words, you have additional costs to do a
9 mailing besides just the postage?

10 A That's correct.

11 Q And that would include, for example, labeling?

12 A Correct.

13 Q With your private delivery, you don't have to
14 label; do you, for your private delivery?

15 A No, we do not. We generate what's called a
16 delivery manifest instead.

17 Q Which is like one sheet which has all the
18 addresses that the carrier follows?

19 A Yes.

20 Q Now, how do you handle the -- you mentioned
21 inserting as being one of the costs of private delivery.

22 Isn't there an inserting cost if you do mail
23 delivery?

24 A There is an inserting cost if you do mail
25 delivery; that's correct.

1 Q And so there again, that component of the cost
2 would be one that's common, whichever way you go?

3 A That's correct, and you're right, sir.

4 Q Another question along those lines, in the case of
5 the Miami operation, are -- for private -- I assume that for
6 the mail, that's done -- the inserting is done mechanically?

7 A It is.

8 Q For private delivery, is it done mechanically, or
9 is it done by carriers?

10 A It's done mechanically.

11 Q Have you had any markets where you've had carriers
12 doing inserting?

13 A In the past, we did have a lot of hand inserting.
14 When we had our 21 or 22 alternate delivery companies and we
15 were delivering magazines before the Postal Rate case of
16 '95, we did a lot of hand inserting and bagging in those
17 operations.

18 Q Now, also, when you do the mail, are you doing a
19 destination delivery unit drop shipment?

20 A We are.

21 Q So, part of the fully-loaded mail cost would be
22 the cost of transporting that ^{mailing} yourself to the destination
23 delivery unit; is that correct?

24 A That's correct.

25 Q Just in general, how familiar are you with the

1 mail operations?

2 A I am very familiar with the Miami mail operation,
3 having run it up until recently.

4 Q For your experience -- and it may be different for
5 other companies -- well, let me just --

6 [Pause.]

7 In terms of competition between newspapers and
8 mailers, for example, what portion of the Miami Herald's
9 preprint advertising appears on Sunday?

10 A I am not sure how to handle that, what context to
11 handle that in, because you added that element of in
12 competing with the mailers.

13 Q Well, let's just drop that part and just make it
14 just the second part.

15 What portion of your total preprint volume is
16 Sunday preprints?

17 MR. BAKER: For the newspaper alone or for the TMC
18 program as a whole?

19 BY MR. McLAUGHLIN:

20 Q Now I am just talking about the newspaper. The
21 TMC does not operate on Sunday, does it?

22 A It does not, sir.

23 I am just calculating here, if you would give me a
24 minute.

25 I would say probably pure newspaper inserts, those

1 that only are run in the newspaper, are 80 percent Sunday
2 and 20 percent weekdays.

3 Q Do you have advertisers that prefer Sunday
4 delivery over other days?

5 A Absolutely.

6 Q Do you also have advertisers who prefer
7 non-saturation newspaper subscriber penetration over full
8 saturation penetration?

9 A We do have a number of them.

10 Q And those are ones that perhaps believe that the
11 readership profile of newspaper readers fits more closely
12 with their particular demographic target, is that correct,
13 than having a saturation --

14 A That is correct. Companies like Dayton Hudson's
15 target stores will tell us that newspaper readers are target
16 shoppers.

17 Q Dayton doesn't want to go to every single
18 household, does it?

19 A Not at this time.

20 Q What portion of your total advertising, of your
21 total preprint volume does have a non-saturation
22 distribution?

23 A Would you ask me one more time, please, sir?

24 Q What portion of your total preprint volume is
25 non-saturation distribution?

1 A Probably close to between 85 and 90 percent is
2 nonsaturation.

3 [Pause.]

4 BY MR. McLAUGHLIN:

5 Q On page 17 --

6 MR. BAKER: What page was that?

7 MR. McLAUGHLIN: Page 17.

8 BY MR. McLAUGHLIN:

9 Q This is line 19.

10 You make the statement, "We believe that the
11 Postal Service should stay out of this battle" -- referring
12 to the competitive --

13 THE WITNESS: I must be on the wrong page.

14 MR. McLAUGHLIN: Oh, I'm sorry.

15 THE WITNESS: Line 19 of page 17, mine says
16 "Newspaper advertising supports". Do I have the wrong
17 document?

18 MR. McLAUGHLIN: Wait a minute. Do I have the
19 wrong document here? My page 17 --

20 THE WITNESS: Mr. Baker, am I looking at the --

21 MR. BAKER: Has he got the right thing now?

22 THE WITNESS: I do now. Can I use yours then, Mr.
23 Baker?

24 MR. BAKER: Sure.

25 MR. McLAUGHLIN: Yes.

1 BY MR. McLAUGHLIN:

2 Q I think different people's computers sometimes put
3 different documents on different lines.

4 THE WITNESS: Mine came off the Internet. That's
5 why it is different.

6 MR. McLAUGHLIN: So I am not the only one who
7 messes up cover pages.

8 THE WITNESS: Would you start again, sir, please?

9 MR. McLAUGHLIN: Yes.

10 BY MR. McLAUGHLIN:

11 Q You make the statement that "We believe that the
12 Postal Service should stay out of this battle" -- referring
13 to the competition between newspapers and direct mailers.

14 Would one way to stay out of the battle and favor
15 neither one nor the other be to establish rates that are
16 cost-based?

17 A You know, I know nothing about cost-based rates
18 and attributable costs and institutional costs so I just
19 don't know how I could answer that.

20 Q I am not asking you what the costs are. I am just
21 asking you would one way to be neutral in the competitive
22 marketplace be to establish postal rates that are cost based
23 in terms of their rate structure?

24 A Again I have to say I am just not sure how to
25 answer it. There would probably be a lot of other variables

1 involved in setting rates.

2 I have been 35 years in the advertising business
3 and we probably used 100 different variables in terms of
4 setting rates, so I just don't know if it is one or the
5 other.

6 Q Well, I think the question is not as complex as
7 you are perhaps interpreting it to be.

8 I am not asking you to accept whether or not the
9 current costs are cost-based or I am not asking you to know
10 what cost-based means or whatever.

11 I am simply asking you would one way to be neutral
12 in the marketplace be to establish postal rates that are
13 based on costs?

14 MR. BAKER: Mr. Chairman, I think the question was
15 prefaced by saying he wasn't defining the term "cost-based"
16 so I would object to the question, because I don't think he
17 can answer it as posed.

18 MR. McLAUGHLIN: Well, Mr. Chairman, it sounds
19 like I am not going to get an answer anyways, so I think I
20 will just go on to the next question.

21 BY MR. McLAUGHLIN:

22 Q Mr. Wilson, there were some discussions earlier
23 today when Mr. Giuliano was on the stand about Advo's
24 profitability, and I assume you were here for that.

25 A I was.

1 Q I had a bunch of documents here that I had
2 forwarded over to your counsel. I think you might have seen
3 they were taken off your web site. And I am not going to
4 bother to drag those out. I think I can perhaps do this
5 fairly simply. Can you confirm that in Fiscal '99 Knight
6 Ridder had operating revenues of about \$3.2 billion?

7 A I believe that to be close.

8 Q And operating income of about \$624 million?

9 A If that came out of their annual report, then that
10 would be correct.

11 Q And the operating margin of 19.3 percent?

12 A And that sounds correct, too.

13 Q And for the period Fiscal 2000 through June, this
14 again is according to stuff taken off the web from the
15 Knight Ridder web site, operating margin of 19.6 percent?

16 A I saw that, that is the case.

17 Q And in Fiscal '99, did you hear earlier than
18 Advo's operating margin was 7.4 percent, a record high for
19 it?

20 A I don't believe I heard that statement.

21 MR. McLAUGHLIN: Okay. No further questions.

22 CHAIRMAN GLEIMAN: The Alliance of Independent
23 Store Owners and Professionals, Ms. Hanbery.

24 CROSS-EXAMINATION

25 BY MS. HANBERY:

1 Q Mr. Wilson, I introduced myself before. We have a
2 couple of things in common besides both having been from the
3 Midwest. This is the first time I have cross-examined a
4 witness, so you can take that as maybe a dubious
5 distinction.

6 A It is a first for both of us.

7 Q I know, that is what we are sharing. So I will
8 try to be direct and brief.

9 A Thank you.

10 Q And if my questions are at all confusing, please
11 make me repeat them. I want to start with some background
12 about you personally and some of the information you gave in
13 your testimony. You were testifying about the Miami market,
14 and you made a number of observations about a paper that
15 AISOP's witness, Orlando Baro, works for the Miami Flyer.
16 Is it correct that you live in the Miami area?

17 A Yes, ma'am, I do.

18 Q And how long have you lived there?

19 A About eight years full-time, I commuted there for
20 about five years before that and then lived permanently
21 since '93.

22 Q And do you receive the Flyer at your home?

23 A I do not.

24 Q Are you familiar with the paper?

25 A I am familiar with it.

1 Q You described in your testimony some of your
2 background in the alternate delivery industry. Have you
3 ever worked for an alternate delivery company that was not
4 either owned or affiliated somehow with a newspaper company?

5 A I have not.

6 Q You testified that you were involved with the
7 alternate delivery business going back sort of to the '70s
8 or '80s. Focusing on the '70s, were any of those alternate
9 delivery companies handling any substantial volume of
10 periodical distribution in the '70s?

11 A No, they weren't.

12 Q The same question for the '80s.

13 A I don't believe they were in the '80s either.
14 Probably I should modify that to say that it was in the '80s
15 that newspaper alternate delivery companies did start doing
16 delivery for occasional weekly newspapers or some community
17 newspapers. That would be the extent of it.

18 Q Okay. You focused some of your testimony about
19 the volume or the importance of magazine delivery to
20 alternate delivery companies around 1995. Can you give a
21 sense of for what period of time magazines made up a
22 significant portion of volume for alternate delivery
23 companies?

24 A I got involved in this in about 1992, and that was
25 about the time that our newspapers were being called by

1 companies like APDI and Publishers Express and asked if they
2 had any interest in doing magazine delivery as part of their
3 -- whatever program they had.

4 We took that into account when we started to build
5 our alternate delivery programs in late '92. As a matter of
6 fact, we had our first "how to" seminar in September of '92
7 with the newspapers on it. And from '92 to '95, it grew
8 very significantly and was a major part of our annual
9 budgeting as we looked at the expenses that we would have in
10 the business and the kind of revenue we would bring in.

11 Q But based on your experience prior to, say, '92,
12 and let's be safe, make it '91, magazine volumes were not a
13 big part of what alternative delivery companies did?

14 A I really don't know, not being involved in '91,
15 but I don't think they were.

16 Q Okay. You gave an estimate in your testimony I
17 think from AAPS sources about the number of alternative
18 delivery companies that were in existence. Again, I think
19 the timeframe was 1995. Do you have a sense of the number
20 of alternative delivery companies that were in existence in,
21 say, the '70s?

22 A I don't. I wasn't involved in it at that time,
23 and I didn't even know that there was^{an} association, if there
24 was at that time.

25 Q The same question for the '80s, do you know then?

1 A No, ma'am.

2 Q Do you know for any period prior to 1995, the
3 period you gave in your testimony?

4 A I really got to know them starting in 1992, and so
5 I really know of that group and of the industry from '92 to
6 today.

7 Q You have been with Knight Ridder for approximately
8 20 years?

9 A Yes, ma'am, about 19.

10 Q And during that period of time, have you ever been
11 involved in selling advertising?

12 A Most of my career.

13 Q Okay. I don't want to belabor your background,
14 can you describe sort of in general, and let's focus on the
15 last 10 years, your involvement in selling advertising?

16 A Going back into the -- I am going to back you up
17 just at least into the '80s, most of my '70s and '80s
18 experiences were sales and then sales management, up to and
19 including an ad directorship at a newspaper. And in the
20 '90s when -- in the late '80s when I joined Knight Ridder, I
21 went off to a staff position to do all of their sales
22 training and development worldwide for them. And then in
23 1992, when they asked to build what we called the
24 augmentation programs, which were alternate delivery and
25 non-subscriber delivery programs, that is when I went back

1 to selling saturation advertising and select market coverage
2 advertising from that point on in '92.

3 Q Focusing on this last, I guess it is fairly recent
4 history, but it is 18 years of history, the size of the
5 customers that you primarily deal with when you are selling
6 saturation advertising, can you give us a sense of the
7 customers that you are responsible for handling?

8 A I was never responsible for handing any of them
9 directly. My role was a teaching, training and consulting
10 role and helping to develop the programs, and then I went
11 forth with the sales people and helped to sell the programs.

12 Q Okay. So the one-on-one dealing with the customer
13 would be more sales people who reported to you?

14 A Yes, that's true.

15 Q Do you have a sense of what percentage of the
16 advertising revenue that Knight Ridder has with its Miami
17 Herald paper, excluding now classifieds and excluding
18 subscription revenues, would come from businesses with two
19 stores or fewer?

20 A I really don't have a great sense of that. It is
21 not something that I have ever looked at.

22 Q I am going to switch gears now and ask some
23 questions about the Miami Herald. Earlier you defined, I
24 think, the market of the Miami Herald as being in the Dade
25 and Broward County area.

1 A South Broward.

2 Q South Broward. I am going to ask you some
3 questions that may repeat some of what Mr. McLaughlin asked,
4 because I am trying to get a handle on numbers of occupied
5 households, numbers of subscribers and some information
6 about your non-subscriber program. And since we are all in
7 a hot hurry today, I provided your counsel earlier with a
8 copy of the ABC audit report for the Miami Herald, and if I
9 may approach.

10 I don't want to belabor any of these numbers. I
11 am looking for some rough approximations.

12 Is it my understanding you had a chance to look at
13 this earlier today and look at the numbers?

14 A I have looked at it in the past so I am familiar
15 with it. I looked at it today.

16 Q Would you agree in general that the approximate
17 occupied household count for the market area served by the
18 Miami Herald, and when I refer to the Miami Herald, I am
19 also including El Nuevo Herald is rough 1,400,000 homes?

20 A Is that on here? Do you want to lead me to it?

21 Q I think if you were to look at -- it is in a
22 couple places where they are making the estimate for the
23 1990 census for total retail trading zones, the actual
24 figure they give is 1,446,700. I am trying to be
25 conservative here.

1 A I would agree.

2 Q Okay, and when we are looking at the circulation
3 of a newspaper, there's a couple of figures that are
4 important that you pointed out. You have paid circulation
5 that shows what everybody paid for the paper. You also have
6 the subscription lists which are identifiable addresses that
7 in any given time are getting the paper? Is that true?

8 A That is correct.

9 Q Okay. Can you give us the rough percentage, and I
10 am going to call that coverage of penetration, for lack of a
11 better word --

12 A We ^{call}~~all~~ it household penetration.

13 Q Okay. What is the approximate overall
14 penetration, and I realize it varies tremendously from area
15 to area, of the Miami Herald in your market area for
16 non-Sunday distribution, people who get the paper Monday
17 through Friday or Monday through Saturday?

18 A I am going to keep saying 21 percent.

19 Q Okay. So that means 80 percent of the occupied
20 households in that area are not getting the paper during the
21 week?

22 A They are not receiving it by carrier. They may be
23 buying it through single copy or getting it at work or
24 something like that but they are not receiving it by carrier
25 in the morning.

1 Q And if we were to factor in the penetration when
2 you count Sunday, what is the Sunday figure?

3 A 27 percent.

4 Q And is the flip side of that that -- I am so bad
5 at math --

6 A It's the same flipside.

7 Q -- 83 percent maybe buying the paper somewhere
8 else but they are not getting it at their home.

9 MR. BAKER: 73 percent.

10 THE WITNESS: 73 percent.

11 MS. HANBERY: 73 percent, okay.

12 BY MS. HANBERY:

13 Q And I take it from Mr. McLaughlin's earlier
14 questions that we both agree that for many of your
15 advertisers it is important to them to have a way of
16 reaching all potential occupied homes in a given geographic
17 area?

18 A That's true, for many of our advertisers.

19 Q And to meet the needs of those advertisers, do I
20 understand correctly that the Miami Herald has a TMC product
21 that you call Herald Values?

22 A That's true, we do.

23 Q And what is the approximate circulation of Herald
24 Values?

25 A It has just gone up and I think it is now about

1 375,000 households, and I need to add to that, that that is
2 the nonsubscriber volume of Herald Values.

3 Q And you are reading my mind here, because where I
4 am going with this is Herald Values, there's a product --
5 when you are approaching the advertiser and saying we've got
6 a way to reach everybody, Herald Values, there's a product,
7 there's a product that also appears in the pages of the paid
8 home delivered paper, correct?

9 A Yes, it does, every Thursday.

10 Q So starting at the top number now for total Herald
11 Values recipients, what is that number?

12 A It is pushing 800,000. Let's say 795,000 -- right
13 in there.

14 Q And 375,000 of that is going one way or another to
15 nonsubscribers, and the balance would be people who are
16 subscribers who get it in their paper?

17 A That is correct. It also goes into single copy on
18 Thursday, so we get a little bigger number.

19 Q Okay. When you say single copy, what does that
20 mean?

21 A Those are the papers that are picked up at the
22 newsstand or out of a news box by people as they are going
23 to work or as they are out shopping.

24 Q And the people who get the Herald Values program
25 in the paper generally get it Thursdays?

1 A That is when the jacket is delivered, yes.

2 Q And the people who get it in the mail, when do
3 they generally get it?

4 A Tuesdays and some Wednesdays.

5 Q Now of your nonsubscriber portion, you have some
6 portion that is distributed by mail and some portion that is
7 still being done by hand delivery or alternate delivery?

8 A That is correct.

9 Q So now we are focusing on that 375,000 number.
10 What of that number goes in the mail?

11 A Around 225,000.

12 Q And that would mean, assuming I don't screw up my
13 math here, 150,000 is private carrier?

14 A That is correct.

15 Q Okay. My next area of questions are going to
16 focus on some of the things in your testimony about how the
17 Miami Herald serves small business.

18 MS. HANBERY: If I may approach.

19 [Pause.]

20 BY MS. HANBERY:

21 Q Do you recognize what I just handed you?

22 A Yes, ma'am.

23 Q Is that for -- in one of those misnomers that
24 ranks only with "honest lawyers" a copy of the Miami Herald
25 rate card?

1 A It is a copy of the Miami Herald retail rate card.

2 Q Okay. That would mean it doesn't include
3 classifieds. What other things aren't in this?

4 A It doesn't include national rate advertising
5 either.

6 Q And I take it you recognize this and are familiar
7 with it?

8 A I do and I am.

9 MS. HANBERY: If I may, I have some courtesy
10 copies for the Commissioners.

11 [Pause.]

12 BY MS. HANBERY:

13 Q I'm going to ask you about a program that Miami
14 Herald offers that I believe is designed to help your
15 smaller advertiser, your smaller retailer service business
16 advertiser that's called the Miami Dade Neighbors Program.

17 And would it be a fair characterization of that
18 program that that gives the smaller advertiser an
19 opportunity to buy distribution in a portion of the ROP part
20 of the paper, not to pay for the whole paper, to reach the
21 area nearest his or her store?

22 A That would be correct.

23 Q Okay. I'm going to ask you to take a look at what
24 I think I flagged on your copy. It's like nine pages in,
25 and it says R-5 at the top.

1 [Pause.]

2 And are you finding the page that says Miami Dade
3 Zone Editions Retail Rates?

4 A Yes, ma'am.

5 Q And is this option something that's available for
6 advertisers to do twice a week on Thursdays and Sundays?

7 A That's correct.

8 Q So, if I had my heart set on Monday, you don't
9 have a zoned option on Monday?

10 A We do not, not using our newspaper.

11 Q Okay. Now, in Dade County, are there seven zones
12 available for the Neighbors product?

13 A Yes, there are.

14 Q Now, I'm going to pursue a hypothetical with you
15 to make sure I understand how this works.

16 If I'm the owner of a single-location dry cleaning
17 store and I wanted to run an ROP ad with the Miami Herald in
18 the Neighbor section, and I wanted to get something zoned
19 because I figure people won't drive that far to do their dry
20 cleaning.

21 I could pick one of the -- the zone that was most
22 appropriate for my store, and buy just an ad for that store
23 that would go either Thursday or Sunday?

24 A That's correct.

25 Q Now, let's follow this hypothetical. Assuming I'm

1 smack dab in the middle of the area marked Coral Gables, and
2 I'm going to put a little a green dot on mine and come show
3 you where I put the green dot.

4 [Pause.]

5 A You put it right above Biscayne Bay, okay, that's
6 fine.

7 Q Now, to keep our math simple, mainly for me, if I
8 wanted this to go out in the Thursday paper, and keeping it
9 simple, if I bought a full-page ad, because I'm in Zone 3,
10 assuming I didn't commit to an ongoing frequency agreement,
11 would my ad cost for a full-page ad be \$1,220.05?

12 A yes, it would.

13 Q Okay, now, for that money, I would get on
14 Thursday, roughly 20 percent penetration of the households
15 in that area?

16 A Depending on -- the 20 percent is an average
17 number, but since you named Coral Gables, I would tell you
18 that it's more like 45 percent of the households in the
19 area.

20 It's an upscale area with high newspaper
21 readership.

22 Q Okay, and depending on where we put our dot, in
23 any of these zones, we could get, it sounds like, quite a
24 bit of fluctuation from a high end to a low end, the average
25 we're working with is 20 percent?

1 A You could, yes.

2 Q And that would reach, if I'm looking at the count
3 and I realize things may have changed since this was
4 published, but roughly 53,325 subscribers in the central
5 area would get my full-page ad in the Neighbors section
6 inserted in the Thursday paper?

7 A That is correct.

8 Q Okay.

9 I'm not that familiar with the geography here. I
10 tried to put my dot in the middle.

11 Going from east to west, approximately how far is
12 the dot from the borderline of this zone?

13 A From -- moving from the Atlantic Ocean going west,
14 is that what you're asking?

15 Q Yes, moving from the Atlantic to the dot, about
16 how many miles is that?

17 A Probably two.

18 Q Okay. So the whole zone is four miles wide?

19 A It could be up to five by the time you got all the
20 way to the west.

21 Q Okay.

22 Now, if I wanted to get a better penetration and I
23 went in the Sunday paper, would the cost for that same ad be
24 \$1,485.25?

25 A It would be what you stated.

1 Q Okay.

2 And based on even 40 percent penetration,
3 approximately 60 percent of the occupied households near my
4 store in this option would not get my ad?

5 A That would be true.

6 Q Okay.

7 [Pause.]

8 Now, you're familiar with the Flyer as a
9 publication?

10 A Yes, ma'am.

11 Q Is it correct that in this same seven-zone area,
12 that the Flyer offers 58 or 59 zones?

13 A That's correct, they do.

14 Q And do you agree that to buy an ad in the roughly
15 12,000 circulation paper known as the Gables in the Flyer,
16 the cost of a full page ad would be approximately \$312?

17 A You know, I haven't looked at their rate card
18 lately, so I couldn't tell you that that's the case.

19 Q Do you have any reason to disagree with that if I
20 said that was the number off the rate card?

21 A I don't have.

22 [Pause.]

23 Q Now, working with the same hypothetical, small dry
24 cleaner, if they wanted to saturate all advertisers in their
25 market area, they could, I take it, buy something in your

1 Herald Values product?

2 A That's correct.

3 Q And in your testimony, I think you describe the
4 advertising rates for the TMC product as a blended rate?

5 A That's correct.

6 Q Is that rate printed anywhere in the document you
7 have?

8 A I don't believe it is.

9 Q Okay, and I've looked at it and have not found it.
10 There is a reference on a page that says for saturation
11 rates, contact your Herald representative. Would that be
12 something that suggests that at least in this document,
13 you're not going to get those rates?

14 A No, it does not. As a matter of fact, I didn't
15 know that you were bringing these rates out, or I would have
16 told you that when you get into the saturation area, then we
17 have things that we call Herald Card, for example, that run
18 in our Herald Values or run in our Sunday paper in Herald
19 Values.

20 And they are a combination of different sized
21 preprinted fly sheets that an advertiser can use where they
22 can saturate their market, either as low as one zip code or
23 for the full market at a price of somewhere between 2.5
24 cents a household and 1.2 cents per household.

25 Q I guess my question was, though, I realize that's

1 a product you offer, because that product's described in
2 this booklet, but are the rates for that product in this
3 booklet?

4 A The rates for that product aren't in that booklet.

5 Q Okay. And you anticipated my next question. If I
6 am this small dry cleaner and I want to buy -- let's start
7 with, I want to print my own advertising and have it
8 distributed, so I'm going to do a preprint.

9 And I want you to distribute it. Is there any
10 minimum quantity that I need to do to be in your Herald
11 Values program?

12 A Yes, there is.

13 Q And what's that?

14 A Ten thousand.

15 Q I'm going to ask you to look at what's I think
16 labelled at the top as R-6 in this booklet and confirm at
17 the top, it says Retail Preprints.

18 A I don't have an R-6.

19 Q I think it's -- if you turn to the twelfth page in
20 that booklet, you'll get to R-6. The pagination is somewhat
21 of a puzzle to me.

22 MR. BAKER: What's the word at the top of the
23 page?

24 MS. HANBERY: Retail Preprints is in the upper
25 right.

1 If I may approach?

2 THE WITNESS: I have it. Retail Preprints.

3 BY MS. HANBERY:

4 Q And I just want to clarify that the rates shown
5 here are rates for insertion in the newspaper, not your TMC
6 program.

7 A I believe that's true.

8 Q Okay. And I believe I asked you earlier if there
9 was a minimum requirement for an advertiser that wanted to
10 do their own preprint distribution with you, and I'm looking
11 at the left side of this page where it says requirements,
12 and it says, due to seasonal variance, please consult your
13 Herald rep to determine exact quantities you will need, and
14 there appear to be some minimum quantities.

15 Is this a minimum quantity requirement for just
16 participating in the paper's inserting rather than Herald
17 Values, then?

18 A Yes, these are the newspaper requirements,
19 newspaper only.

20 Q Okay. So if I wanted to just have a preprint,
21 say, go Sunday, according to this, I have to be prepared to
22 commit to 100,000. Am I understanding that right?

23 A That's correct.

24 Q But for Herald Values, your threshold is lower,
25 it's 10,000?

1 A That's correct.

2 MS. HANBERY: Mr. Chairman, I would ask that this
3 document be received into evidence and transcribed in the
4 record. I realize it's lengthy.

5 MR. BAKER: One question. Is this the same
6 document that's AISOP library reference 1?

7 MS. HANBERY: It is.

8 MR. BAKER: Then, Mr. Chairman, I would -- do not
9 mind it being put in the record, at least the pages she has
10 asked about. I'm not sure I see the point of putting in the
11 rest of the pages, but certainly I'm wondering, since it's
12 already a library reference, whether it really needs to be
13 transcribed.

14 CHAIRMAN GLEIMAN: Are you raising a question
15 about it being placed into evidence or just the question
16 about it being transcribed and the number of pages? It's
17 not clear to me what you're --

18 MR. BAKER: I am certainly raising a question
19 about transcription, although it might make sense to take
20 the pages that the witness has been asked about and put
21 those in the record.

22 I'll withdraw the other part of the objection.

23 CHAIRMAN GLEIMAN: Rather than try and pull this
24 apart, even though it is a lengthy document and only three
25 of the pages, as best I can recall, were referred to, I

1 think we will get it transcribed into the record at this
2 point. I'm going to mark it as AISOP/NAA-RT-1-XE1. And
3 I've got two copies and I'm going to hand them to the court
4 reporter.

5 Ms. Hanbery, is that or --

6 MS. HANBERY: No. I'm close.

7 CHAIRMAN GLEIMAN: Okay.

8 BY MS. HANBERY:

9 Q Next I want to follow up with some of the market
10 and product testimony you gave about specifics with the
11 Miami Flyer, and I would --

12 CHAIRMAN GLEIMAN: I'm concerned that there may be
13 a question from someone else. I may have missed a point
14 here.

15 MR. TODD: Pardon me. I'm not clear whether
16 you're transcribing it or --

17 CHAIRMAN GLEIMAN: It's being transcribed.

18 MR. TODD: Is it in evidence?

19 CHAIRMAN GLEIMAN: It wasn't -- I'm not sure
20 whether it was asked to be placed into evidence or whether
21 -- Mr. Baker, you raised a question about it being placed
22 into evidence? You would like it placed into evidence?

23 MS. HANBERY: I thought I --

24 CHAIRMAN GLEIMAN: You withdrew the question about
25 it being placed into evidence?

1 MR. BAKER: I withdrew the objection I was
2 voicing.

3 CHAIRMAN GLEIMAN: Okay. Then it is also -- thank
4 you, Mr. Todd. I appreciate your assistance. It is also,
5 in addition to being transcribed, received into evidence.

6 [AISOP/NAA-RT-1-XE1 was received in
7 evidence and transcribed in the
8 record.]

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H100/NNH-K12-X

2000 The Miami Herald/El Nuevo Herald

Retail ROP Rates

Annual Volume Contract Rates -- The Miami Herald/El Nuevo Herald*

Contract Size in Col. in.	Herald/El Nuevo Herald/Int'l Combo		Herald & El Nuevo Herald		Herald			El Nuevo Herald		International**	
	Daily	Sunday	Daily	Sunday	Daily	Sunday	Business Monday	Daily	Sunday	Daily	Sunday
Open rate	\$197.50	\$253.65	\$187.50	\$241.65	\$159.65	\$212.25	\$167.05	\$46.95	\$52.00	\$19.95	\$26.25
40"	155.10	200.55	145.10	188.55	117.25	159.15	124.65	44.30	49.20	19.45	25.75
75"	153.70	198.30	143.70	186.30	115.85	156.90	123.25	43.65	48.55	18.40	24.70
375"	152.25	196.30	142.25	184.30	114.40	154.90	121.80	42.25	46.95	17.35	23.65
750"	150.85	194.30	140.85	182.30	113.00	152.90	120.40	39.20	43.55	15.75	22.05
1,875"	149.60	192.30	139.60	180.30	111.75	150.90	119.15	36.65	40.80	14.70	21.00
3,750"	148.25	190.20	138.25	178.20	110.40	148.80	117.80	35.10	39.00		
5,625"	146.70	188.05	136.70	176.05	108.85	146.65	116.25	33.45	37.15		
7,500"	145.10	185.75	135.10	173.75	107.25	144.35	114.65	32.50	36.00		
12,500"	143.40	183.35	133.40	171.35	105.55	141.95	112.95	31.30	34.80		
18,750"	141.60	180.05	131.60	168.05	103.75	138.65	111.15	30.30	33.60		
35,000"	139.85	178.20	129.85	166.20	102.00	136.80	109.40				
50,000"	138.10	175.70	128.10	163.70	100.25	134.30	107.65				
65,000"	136.35	173.30	126.35	161.30	98.50	131.90	105.90				

*Rates are per column inch **The International Edition's pickup rate is \$10.00 daily and \$12.00 Sunday per column inch when repeating an ad that is scheduled to appear in any of The Miami Herald/El Nuevo Herald's full run products or sections within seven days.

HOLIDAY RATES AND CIRCULATION

We provide Sunday circulation of The Miami Herald to all subscribers on five holidays: New Year's Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. These holidays are charged at the Sunday contract rate and include Sunday pricing of color and any other applicable premiums. Please note: Business Monday ads running on a Monday holiday (such as Labor Day) are charged based on a combined total of the Sunday rate and the Sunday page premium.

PAGE 2A

A fixed 2 col. x 7" space on page 2 of Section A offers advertisers guaranteed placement in one of the paper's most widely read sections. Page 2A positions are available Thursdays, Fridays, Saturdays and Sundays. Rates are equal to your achieved contract level rate plus a premium charge depending on the frequency of your contract.

Page 2A Premiums

The Herald Frequency	Daily Premium Per Column Inch	Sunday Premium Per Column Inch
52x	\$ 9.35	\$11.25
39x	14.05	16.85
26x	18.75	22.45
13x	30.85	37.10

El Nuevo Herald

El Nuevo Herald is a Spanish-language newspaper published seven days a week by The Miami Herald Publishing Company. It is one of the largest Spanish-language daily newspapers in the continental United States.

El Nuevo Herald is standard size, with six-column display advertising and ten-column classified advertising.

Full-run Miami Herald contract advertisers automatically qualify for the same volume level on their El Nuevo Herald contracts without signing a new contract.

Free translation is available up to 24 hours prior to regular deadline. Translated ads must be the same size or larger and contain the same copy points and can be based on a 6 column x 21 inch page size.

Recognized agencies qualify for a 15% commission on El Nuevo Herald advertising.

El Nuevo Herald's pick up rate is \$27.85 per column inch Daily, \$29.40 per column inch Sunday (except for Domingo Social @ \$42.00 and Viernes @ \$35.25), when repeating an ad that is scheduled to appear in any other Miami Herald product or section within 7 days. Translated ads must be the same size or larger and contain the same copy points and can be based on a 6 column x 21 inch page size.

If you already have a Full Run contract, you are eligible for the El Nuevo Herald contract rate without signing a new contract.

POSITION PREMIUMS

Premium positions* are available with advance reservations.

PREMIUM RATES

	"Section A"	Other Pages & Sections
Daily Herald	\$9.75	\$7.40
Sunday Herald	11.85	8.95

*These premiums apply when position is requested for Theater, Amusement, Stock Exchange, section back pages, Daily Comics, Daily TV, Action Line, Race Track, Op Ed or other pages. Back page of Section A takes the "A" section premium rate. These position premiums are in addition to the display rates and are subject to space availability.

Page 3A - El Nuevo Herald

A fixed 2 col. x 7" space on page 3 of section A is rated with a \$3.55 daily per column inch premium, regardless of frequency. Available Wednesday, Thursday, Friday, Saturday and Sunday.

Negocios

Negocios is a 20-page, color tabloid business section published every Monday in El Nuevo Herald, focusing on commerce, finance, policy, technology and development, with special emphasis on Latin American issues.

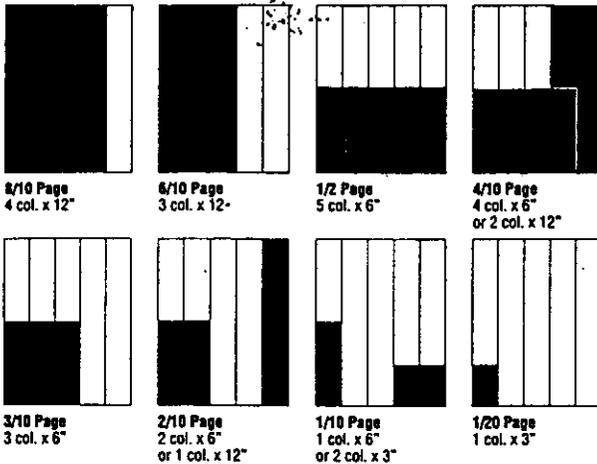
FULL PAGE RATE \$2,060.00

Weekend

When South Floridians make their weekend plans, they turn to Weekend, The Herald's lively, provocative and feature-packed guide to what's happening — from Palm Beach to the Keys. Music, movies, theatre, events, nightlife and dining share the spotlight in this zoned, tabloid guide. For more information, contact your Herald advertising representative or call (305) 376-2773.

WEEKEND MODULAR AD SIZES

DEADLINE: Tuesday, 5 p.m.



Also available: 5 col. x 3" strip ad and a 5 col. x 12" full page. One column is 1-7/8" wide.

Weekend Section Frequency Rates

Full Run					
Size	OPEN	6X	13X	26X	
Full Page	\$8,928	\$7,678	\$7,071	\$5,875	
8/10	7,285	6,188	5,770	4,793	
6/10	5,573	4,670	4,413	3,668	
5/10	4,664	3,889	3,694	3,069	
4/10	3,865	3,170	3,062	2,544	
3/10	2,881	2,364	2,282	1,896	
2/10	2,011	1,650	1,593	1,323	
1/10	1,025	938	813	675	
1/20	518	474	410	340	
Strip Ad	2,297	1,884	1,820	1,512	

Miami-Dade Zone					
Size	OPEN	6X	13X	26X	
Full Page	\$6,522	\$5,609	\$5,167	\$4,293	
8/10	5,218	4,608	4,133	3,434	
6/10	4,106	3,547	3,252	2,702	
5/10	3,505	3,012	2,775	2,307	
4/10	2,961	2,525	2,345	1,949	
3/10	2,251	1,919	1,783	1,482	
2/10	1,602	1,365	1,269	1,055	
1/10	833	761	660	549	
1/20	429	392	340	284	
Strip Ad	1,831	1,561	1,449	1,204	

Advertisers are billed at the earned rate for advertising purchased and published beginning the month following the date on which the advertiser satisfies the lineage or frequency level required for that rate during the contract term. No advertiser will receive an automatic rebate on past advertising purchases solely by qualifying for a lower earned rate during the contract term.

Broward Zone

Size	OPEN	6X	13X	26X
Full Page	\$2,763	\$2,376	\$2,188	\$1,817
8/10	2,210	1,952	1,750	1,454
6/10	1,724	1,502	1,366	1,135
5/10	1,471	1,277	1,165	968
4/10	1,244	1,060	984	819
3/10	945	805	748	621
2/10	672	574	532	442
1/10	349	319	277	230
1/20	180	164	143	119
Strip Ad	768	655	609	506

Business Monday

Business Monday is a weekly business and personal finance tabloid insert. With special emphasis on international commerce, Business Monday also specializes in coverage of local, national and regional business issues, with specialized columns on investment, marketing, advertising, technology, hospitality and finance.

Rates for Business Monday are on the Volume Contract Rate grid on the front of this rate sheet. These rates include a built-in premium.

DEADLINE: Thursday, 3 p.m.

Special Section Rates

Throughout the year, The Miami Herald and El Nuevo Herald publish special sections targeting a wide variety of reader interests. For information about upcoming sections, please contact your Herald advertising representative or call (305) 376-2780. In Broward, call 764-7026, ext. 2780.

Miami Herald International Edition

The Miami Herald International Edition, for readers in the Caribbean and Latin America, is transmitted daily via satellite to partner newspapers in Latin America, making it the only English-language international newspaper printed outside the United States.

For more information on the Miami Herald International Edition, contact your Herald advertising representative.

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

Main Office.....(305) 376-2820
 South, Southwest..... 671-4300
 North, Northwest, Miami Beach & South Beach..... 653-2438

Broward Retail Advertising.....(954) 985-4595

Palm Beach Retail Advertising.....(561) 848-3341

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications". All rates current at time of publication. For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>.

2000 The Miami Herald/El Nuevo Herald

El Nuevo Herald Retail ROP Rates**Annual Volume Contract Rates – The Miami Herald/El Nuevo Herald***

Contract Size In Col. In.	Miami Herald/El Nuevo Herald/Int'l Combo		Miami Herald & El Nuevo Herald		El Nuevo Herald		International**	
	Daily	Sunday	Daily	Sunday	Daily	Sunday	Daily	Sunday
Open rate	\$197.50	\$253.65	\$187.50	\$241.65	\$46.95	\$52.00	\$19.95	\$26.25
40"	155.10	200.55	145.10	188.55	44.30	49.20	19.45	25.75
75"	153.70	198.30	143.70	186.30	43.65	48.55	18.40	24.70
375"	152.25	196.30	142.25	184.30	42.25	46.95	17.35	23.65
750"	150.85	194.30	140.85	182.30	39.20	43.55	15.75	22.05
1,875"	149.60	192.30	139.60	180.30	36.65	40.80	14.70	21.00
3,750"	148.25	190.20	138.25	178.20	35.10	39.00		
5,625"	146.70	188.05	136.70	176.05	33.45	37.15		
7,500"	145.10	185.75	135.10	173.75	32.50	36.00		
12,500"	143.40	183.35	133.40	171.35	31.30	34.80		
18,750"	141.60	180.05	131.60	168.05	30.30	33.60		
35,000"	139.85	178.20	129.85	166.20				
50,000"	138.10	175.70	128.10	163.70				
65,000"	136.35	173.30	126.35	161.30				
Full Page Rate					\$3,217.00	\$3,710.00		

*Rates are per column inch **The International Edition's pickup rate is \$10.00 daily and \$12.00 Sunday per column inch when repeating an ad that is scheduled to appear in any of The Miami Herald/El Nuevo Herald's full run products or sections within seven days.

El Nuevo Herald

El Nuevo Herald, published by The Miami Herald Publishing Company, is one of the largest Spanish-language daily newspapers in the continental United States. It is a broadsheet with 6-column display advertising and 10-column classified advertising.

Full run Miami Herald contract advertisers automatically qualify for the same volume level on El Nuevo Herald contracts. El Nuevo Herald's pick up rate is \$27.85 per column inch Daily, \$29.40 per column inch Sunday (except for Domingo Social @ \$42.00 and Viernes @ \$35.25), when repeating an ad appearing in any other Herald product or section within 7 days. Free ad translation is available up to 24 hours prior to regular deadline. Translated ads must be the same size or larger and contain the same copy points. Recognized advertising agencies are eligible for a 15% commission.

HOLIDAY RATES AND CIRCULATION

We provide Sunday circulation of The Miami Herald/El Nuevo Herald to all subscribers on five holidays: New Year's Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Advertising on these holidays is charged at your Sunday contract rate.

EL NUEVO HERALD REPEAT RATE

El Nuevo Herald advertisers may run the same ad, within 7 days and unchanged, for 30% less than their regular contract rate. A third (or more) unchanged ads may then run within 7 days at 50% off the regular rate. The ads may start on any day, but the highest rate ad will be counted as the full rate ad (i.e., run Thursday, Saturday and Sunday; and Sunday will run at the full ad rate; the other two at discount). (Not available in Viernes or Domingo Social.)

Negocios

Negocios is a 20-page, color tabloid business section published every Monday in El Nuevo Herald, focusing on commerce, finance, policy, technology and development, with special emphasis on Latin American issues.

FULL PAGE RATE \$2,060.00

Advertisers will be billed at the earned rate for advertising purchased and published beginning the month following the date on which the advertiser satisfies the image or frequency level required for that rate during the contract term. No advertiser will receive an automatic rebate on past advertising purchases solely by qualifying for a lower earned rate during the contract term.

Page 3A- El Nuevo Herald

A fixed 2 col. x 7" space on page 3 of Section A offers advertisers guaranteed placement in one of the paper's most widely read sections. Rates are equal to your achieved contract level rate plus a daily \$3.55 per column inch premium. Available Wednesday, Thursday, Friday, Saturday & Sunday.

Viernes

Viernes is the popular entertainment magazine for young Hispanics, with features on music, nightclubs, movies, videos, celebrities and more. It offers advertisers further reach, broader coverage and higher circulation than any other Spanish language entertainment publication in South Florida. Viernes is delivered with Thursday's El Nuevo Herald. In addition, 30,000 - 50,000 free copies are distributed around South Florida via strategically positioned racks.

Viernes takes an active role in sponsoring Hispanic events of interest to its young, active readers. For more information about Viernes, contact your Herald advertising representative or call (305) 376-8919 (Broward: 764-7026 ext. 8919).

OPEN AND FREQUENCY RATES

	OPEN RATE	6X	13X	26X
Retail/Classified	\$59.45	\$29.85	\$25.30	\$20.85

FULL PAGE RATE

Full Page \$2,020.00

COLOR RATES

	1 Color	2 Colors	3 Colors or more
	\$592.00	\$721.00	\$876.00

PICK-UP RATE

Retail/Classified \$35.25

Domingo Social

Reach more than 140,000 Hispanic households in Miami-Dade and Broward counties with Domingo Social, El Nuevo Herald's colorful Sunday tabloid that spotlights social gatherings, parties, openings, weddings, anniversaries and local personalities. Every Sunday, more than 140,000 copies of Domingo Social are delivered within El Nuevo Herald. If your focus is on the Hispanic market, this medium delivers a high penetration.

For more information about Domingo Social, contact your Herald advertising representative or call (305) 376-8919. Public relations sponsorship packages are available.

OPEN AND FREQUENCY RATES

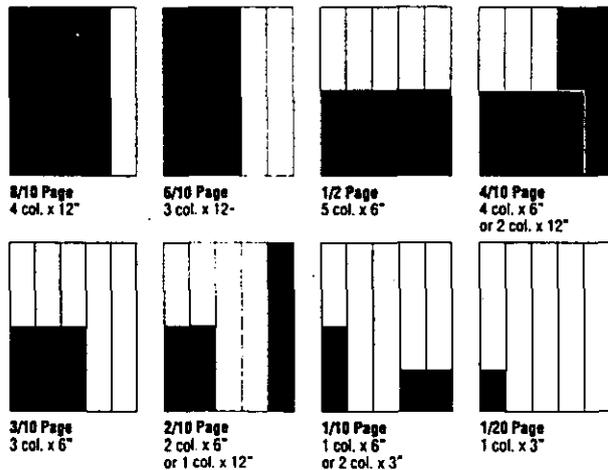
	OPEN RATE	6X	13X	26X
Retail/Class	\$68.60	31.90	29.30	24.20

FULL PAGE RATE	\$2,318.00	COLOR RATES
		1 Color \$368.00
PICK-UP RATE		2 Colors or more \$25.00
Retail/Class	\$42.00	

DOMINGO SOCIAL PUBLIC RELATIONS SPONSORSHIP PACKAGE RATES

Full Page	\$2,119.00
Half Page	1,143.45
Quarter Size	635.25

VIERNES AND DOMINGO SOCIAL MODULAR SIZES



Also available: 5 col. x 3" strip ad and a 5 col. x 12" full page. One column is 1-7/8" wide.

Special Section Rates

Throughout the year, The Miami Herald and El Nuevo Herald publish special sections targeting a wide variety of reader interests. For information on upcoming sections, please contact your Herald advertising representative or call (305) 376-8919.

Miami Herald International Edition

The Miami Herald International Edition, for readers in the Caribbean and Latin America, is transmitted daily via satellite to partner newspapers in Latin America, making it the only English-language international newspaper printed outside the United States.

For more information on the Miami Herald International Edition, contact your Herald advertising representative.

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

Main Office.....(305) 376-2820
 South, Southwest.....671-4300
 North, Northwest, Miami Beach & South Beach.....653-2438

Broward Retail Advertising.....(954) 985-4595

Palm Beach Retail Advertising.....(561) 848-3341

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications". All rates current at time of publication. For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>.

Retail Financial Rate Card

Annual Volume Contract Rates – The Miami Herald*

Contract Size In Col. In.	Miami Herald/El Nuevo Herald/Int'l. Edition Combo		Miami Herald/El Nuevo Herald Combo		Miami Herald		
	Daily	Sunday	Daily	Sunday	Daily	Sunday	Business Monday
Open rate	\$213.50	\$274.90	\$203.50	\$262.90	\$175.65	\$233.50	\$183.05
40"	166.85	216.50	156.85	204.50	129.00	175.10	136.40
75"	165.30	214.00	155.30	202.00	127.45	172.60	134.85
375"	153.70	211.80	153.70	199.80	125.85	170.40	133.25
750"	162.15	209.60	152.15	197.60	124.30	168.20	131.70
1,875"	160.80	207.40	150.80	195.40	122.95	166.00	130.35
3,750"	159.30	205.10	149.30	193.10	121.45	163.70	128.85
5,625"	157.60	202.75	147.60	190.75	119.75	161.35	127.15
7,500"	155.85	200.20	145.85	188.20	118.00	158.80	125.40
12,500"	154.00	197.55	144.00	185.55	116.15	156.15	123.55
18,750"	152.00	193.95	142.00	181.95	114.15	152.55	121.55
35,000"	150.05	191.90	140.05	179.90	112.20	150.50	119.60
50,000"	148.15	189.15	138.15	177.15	110.30	147.75	117.70
65,000"	146.20	186.50	136.20	174.50	108.35	145.10	115.75

*Rates are per column inch **The International Edition's pickup rate is \$10.00 daily and \$12.00 Sunday per column inch when repeating an ad that is scheduled to appear in any of The Miami Herald/El Nuevo Herald's full run products or sections within seven days.

FINANCIAL RATES APPLY TO:

1. All banks including those with headquarters outside of the Miami/Ft. Lauderdale DMA (Miami-Dade, Broward, Monroe) plus Palm Beach.
2. Securities & Brokerage firms.
3. Insurance Firms except Health Insurance.

FREQUENCY DISCOUNT PROGRAM:

Eligible Financial category advertisers who run three or more ads within a seven-day period (i.e. Monday-Sunday) will receive 30% off their contract rate on the second ad and 50% off their contract rate on all subsequent ads within a seven-day period.

REQUIREMENTS

1. Ad must be same size and copy.
2. Highest rate ad will be at full rate and will not receive a discount, i.e., Sunday Business or Business Monday.
3. Advertisers must run ads within a 7-day period to qualify for the discount.

HOLIDAY RATES AND CIRCULATION

We provide Sunday circulation of The Miami Herald to all subscribers on five holidays: New Year's Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. These holidays are charged at your Sunday contract rate. Please note: Business Monday ads running on a Monday holiday (such as Labor Day) are charged based on a combined total of the Sunday rate and the Sunday page premium.

POSITION PREMIUMS

Premium positions* are available with advance reservations.

RATES	Section A	Other Pages & Sections
Herald Daily	\$9.75	\$7.40
Herald Sunday	11.85	8.95

*These premiums apply when position is requested for Theater, Amusement, Stock Exchange, section back pages, Daily Comic, Daily TV, Action Line, Race Track, Op Ed or other pages. Back page of Section A takes the "A" section premium rate. These position premiums are in addition to the display rates and are subject to space availability.

El Nuevo Herald

El Nuevo Herald is a Spanish-language newspaper published seven days a week by The Miami Herald Publishing Company. It is one of the largest Spanish-language daily newspapers in the continental United States.

El Nuevo Herald is standard size, with six-column display advertising and ten-column classified advertising.

Full-run Miami Herald contract advertisers automatically qualify for the same volume level on their El Nuevo Herald contracts without signing a new contract.

Free translation is available up to 24 hours prior to regular deadline.

Translated ads must be the same size or larger and contain the same copy points and can be based on a 6 column x 21 inch page size.

Recognized agencies qualify for a 15% commission on El Nuevo Herald advertising.

El Nuevo Herald's pick up rate is \$27.85 per column inch Daily, \$29.40 per column inch Sunday (except for Domingo Social @ \$42.00 and Viernes @ \$35.25), when repeating an ad that is scheduled to appear in any other Miami Herald product or section within 7 days. Translated ads must be the same size or larger and contain the same copy points and can be based on a 6 column x 21 inch page size.

If you already have a Full Run contract, you are eligible for the El Nuevo Herald contract rate without signing a new contract.

Business Monday

Business Monday is a weekly business and personal finance tabloid insert. With special emphasis on international commerce, Business Monday also specializes in coverage of local, national and regional business issues, with specialized columns on investment, marketing, advertising, technology, hospitality and finance.

Rates for Business Monday are on the rate grid above. These rates include a built-in premium.

DEADLINE: Thursday, 3 p.m.

Negocios

Negocios is a 20-page, color tabloid business section published every Monday in El Nuevo Herald, focusing on commerce, finance, policy, technology and development, with special emphasis on Latin American issues.

FULL PAGE RATE \$2,060.00

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

Main Office.....	(305) 376-2820
South, Southwest	671-4300
North, Northwest, Miami Beach & South Beach.....	653-2438
Broward Retail Advertising.....	(954) 985-4595
Palm Beach Retail Advertising.....	(561) 848-3341

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications".

All rates current at time of publication.

For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>.

Advertisers will be billed at the earned rate for advertising purchased and published beginning the month following the date on which the advertiser satisfies the lineage or frequency level required for that rate during the contract term. No advertiser will receive an automatic rebate on past advertising purchases solely by qualifying for a lower earned rate during the contract term.

Broward Zoned Editions Retail Rates

Broward Rates

BROWARD LOCAL

A Local News section is inserted in the Broward Edition of The Herald seven days a week, providing local and county-wide coverage.

Contract Size in Col. Inches	DAILY	SUNDAY
Open rate	\$38.10	\$44.65
40"	30.30	36.00
75"	29.85	35.60
375"	29.45	35.15
750"	29.10	34.75
1,875"	28.65	34.20
3,750"	28.05	33.75
5,625"	27.70	33.50
7,500"	27.30	32.90
12,500"	27.05	32.80
18,750"	26.85	32.55
35,000"	26.10	31.70
Full Page	\$2,665.00	\$3,189.00

BROWARD HERALD REPEAT RATE

Any advertiser in Broward may run the same ad, within 7 days and unchanged, for 30% off the regular contract rate. You may then run a third or more ads within 7 days and unchanged at 50% off the regular rate. The ads may start on any day, but the highest rate ad will be counted as the full rate ad (i.e., run Thursday, Saturday and Sunday; and Sunday will count as the full rate ad, the other two at discount).

Broward Editions

BROWARD BUSINESS MONDAY

Business Monday is distributed in Broward County in The Herald.

Frequency Contract	Open	6X	13X	26X	52X
Full Page	\$1,461	\$1,431	\$1,388	\$1,316	\$1,243
1/2 Page	746	730	708	672	634
1/4 Page	380	371	361	341	323
1/8 Page	194	190	184	175	165

Modular Sizes for Broward Business Monday and Weekend

- Full Page: 5 col. x 12"
- 1/2 Page: 5 col. x 6" or 3 col. x 12"
- 1/4 Page: 3 col. x 5.5" or 2 col. x 8"
- 1/8 Page: 2 col. x 4" or 1 col. x 8"

BROWARD FOOD & FITNESS, TROPICAL LIFE RATES - see Food & Fitness Rate Card

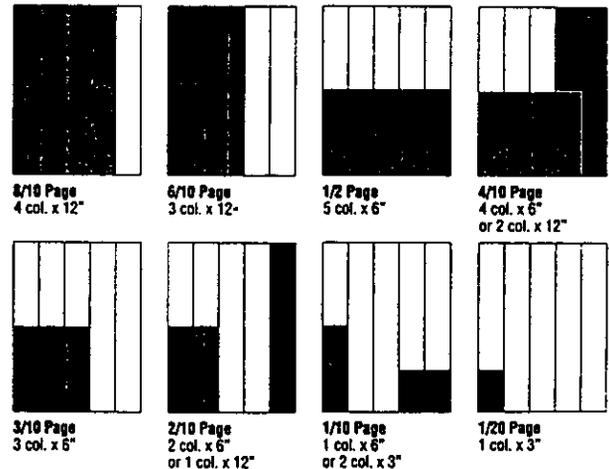
Weekend

When people make their weekend plans, they turn to Weekend, The Herald's lively, feature-packed guide to what's happening in South Florida from Palm Beach to the Florida Keys. Music, movies, theatre, events, nightlife and dining all share the spotlight in this zoned, tabloid-size guide. For more information, contact your Herald advertising representative or call (954) 985-4595.

Broward Zoned Rates

Size	OPEN	6X	13X	26X
Full Page	\$2,763	\$2,376	\$2,188	\$1,817
8/10	2,210	1,952	1,750	1,454
6/10	1,724	1,502	1,366	1,135
5/10	1,471	1,277	1,165	968
4/10	1,244	1,060	984	819
3/10	945	805	748	621
2/10	672	574	532	442
1/10	349	319	277	230
1/20	180	164	143	119
Strip Ad	768	655	609	506

WEEKEND MODULAR SIZES



Also available: 5 col. x 3" strip ad and a 5 col. x 12" full page. One column is 1-7/8" wide.

Hometown Herald

Hometown Herald offers advertisers a special opportunity to target their advertising to specific areas of Broward Herald circulation. These zoned sections are inserted in The Herald every Thursday and Sunday.

All Broward Hometown Herald sections are standard size and are priced based on modular sizes.

Hometown Herald contracts are frequency contracts that apply to any zone, any size. An ad on frequency contract counts as an insertion date towards the contract fulfillment. Additional zones on the same day do not count towards frequency fulfillment however.

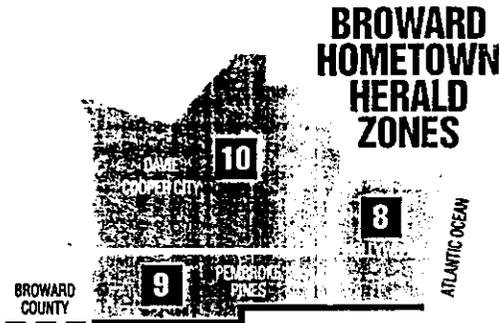
Contract fulfillment timeframe is as follows:

13X Commences with first insertion date, expires 26 calendar weeks from that date.

26X Commences with first insertion date, expires 39 calendar weeks from that date.

39X Commences with first insertion date, expires 52 calendar weeks from that date.

52x Commences with first insertion date, expires 52 calendar weeks from that date.



BROWARD HOMETOWN HERALD ZONES

Number	Zone	Circulation*	
		Thursday	Sunday
8	Southeast	28,560	33,992
9	Southwest	23,613	29,578
10	West Central	20,502	24,589
TOTAL		72,675	88,159

Source: MHPC Circulation Department, 1999.

Broward Hometown Herald Rates

Zone 8 SOUTHEAST: Hollywood, Hallandale, Dania, Pembroke Park

	OPEN	13X	26X	39X	52X
Thursday					
Full Page	\$668	\$529	\$510	\$497	\$461
1/2 Page	503	396	384	374	345
1/4 Page	263	208	201	195	180
1/8 Page	139	110	106	102	96

Sunday					
Full Page	\$732	\$580	\$559	\$545	\$505
1/2 Page	550	433	420	410	378
1/4 Page	288	228	220	213	197
1/8 Page	152	120	116	112	105

Zone 9 SOUTHWEST: Pembroke Pines, Miramar

	OPEN	13X	26X	39X	52X
Thursday					
Full Page	\$452	\$359	\$345	\$337	\$312
1/2 Page	341	271	260	254	235
1/4 Page	179	141	136	135	123
1/8 Page	94	75	73	70	65

Sunday					
Full Page	\$495	\$393	\$378	\$369	\$342
1/2 Page	373	296	285	278	259
1/4 Page	196	154	150	149	135
1/8 Page	102	83	79	77	70

Zone 10 WEST CENTRAL: Cooper City, Davie, Plantation, Sunrise, Weston, Bonaventure

	OPEN	13X	26X	39X	52X
Thursday					
Full Page	\$415	\$328	\$318	\$309	\$285
1/2 Page	312	246	238	233	215
1/4 Page	163	130	124	122	113
1/8 Page	87	67	66	65	59

Sunday					
Full Page	\$454	\$360	\$348	\$339	\$312
1/2 Page	342	270	261	255	235
1/4 Page	178	142	136	134	124
1/8 Page	95	74	73	70	65

MULTIPLE ZONE DISCOUNT

Run in two zones and receive a 5% discount on each zone. Run in three zones and receive a 10% discount on each zone. Multiple zone ads will not count toward fulfillment of frequency contract.

HOMETOWN HERALD SIZES

Full Page	6 col. x 21"
1/2 Page	6 col. x 10-1/2" or 3 col. x 21"
1/4 Page	3 col. x 10-1/2" or 6 col. x 5-1/4"
1/8 Page	3 col. x 5-1/4"

Broward Zoned Package Rates

RESTAURANT RATE (DISTINCTIVE DINING)

A restaurant ad (2 col. x 6") can be placed in Broward Weekend and one Thursday and Sunday Hometown Herald for as low as \$201 (39X rate).

1X	13X	26X	39X
\$335	\$221	\$211	\$201

AUTO CARE RATE

An Auto Care ad (2 col. x 6") can be placed in the Broward Local section, and one Thursday and Sunday Hometown Herald for as low as \$202 (13X rate).

1X	6X	13X
\$246	\$224	\$190

EVERYTHING FOR KIDS

An Everything For Kids ad (2 col. x 6") can be placed in the Wednesday Broward Local section and one Thursday and Sunday Hometown Herald for as low as \$123 (13X rate).

1X	6X	13X
\$151	\$140	\$123

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

Main Office.....	(305) 376-2820
South, Southwest.....	671-4300
North, Northwest, Miami Beach & South Beach.....	653-2438
Broward Retail Advertising.....	(954) 985-4595
Palm Beach Retail Advertising.....	(561) 848-3341

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications".
 All rates current at time of publication.
 For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>.

Miami-Dade Zoned Editions Retail Rates

Miami-Dade Neighbors

Zoned Neighbors sections offer advertisers the opportunity to target their advertising to specific Herald circulation areas in Miami-Dade County. These neighborhood tabloids are inserted in The Herald every Thursday and Sunday. Neighbors completely cover Miami-Dade County (the Miami MSA) with seven editions.

The Miami-Dade Neighbors sections are tabloid-size products and are priced in column inch rates.

MIAMI-DADE NEIGHBORS CIRCULATION BY ZONE

Number	Zone	Circulation*	
		Thursday	Sunday
1	South	23,054	31,180
2	Kendall	46,573	61,227
3	Central	53,324	63,225
4	Northwest	27,133	35,078
5	North Central	21,720	27,600
6	North	39,198	50,036
7	Beaches	22,235	26,594
TOTAL		233,237	294,940

*Source: MHPC Circulation Department, 1999.



Miami-Dade Neighbors Retail Rates

Thursday, Zones 1 or 5 or 7

Size	1x	2x	4x	6x	13x	26x
Open (per inch)	\$24.00	\$12.00	\$11.00	\$10.00	\$9.50	\$8.00
Full Page (5 col. x 12")	605.15	605.15	605.15	600.00	570.00	480.00

Thursday, Zones 2 or 3 or 6

Size	1x	2x	4x	6x	13x	26x
Open (per inch)	\$35.00	\$24.00	\$22.00	\$21.00	\$20.00	\$18.00
Full Page (5 col. x 12")	1,220.05	1,220.05	1,220.05	1,220.05	1,200.00	1,080.00

Sunday, Zones 1 or 5 or 7

Size	1x	2x	4x	6x	13x	26x
Open (per inch)	\$30.00	\$14.00	\$13.00	\$12.00	\$11.00	\$10.00
Full Page (5 col. x 12")	692.90	692.90	692.90	692.90	660.00	600.00

Sunday, Zones 2 or 3 or 6

Size	1x	2x	4x	6x	13x	26x
Open (per inch)	\$45.00	\$27.00	\$26.00	\$25.00	\$24.00	\$20.00
Full Page (5 col. x 12")	1485.25	1485.25	1485.25	1485.25	1440.00	1200.00

Thursday, Zone 4

Size	1x	2x	4x	6x	13x	26x
Open (per inch)	\$31.00	\$16.00	\$15.00	\$14.00	\$13.00	\$12.00
Full Page (5 col. x 12")	854.00	854.00	854.00	840.00	780.00	720.00

Sunday, Zone 4

Size	1x	2x	4x	6x	13x	26x
Open (per inch)	\$39.00	\$19.00	\$18.00	\$17.00	\$16.00	\$14.00
Full Page (5 col. x 12")	1,040.00	1,040.00	1,040.00	1,020.00	960.00	840.00

MULTIPLE ZONE DISCOUNT

Run in two zones on the same day and receive a 5% discount on each zone.
Run in three zones on the same day and receive a 10% discount on each zone.

FULL PAGE RATES

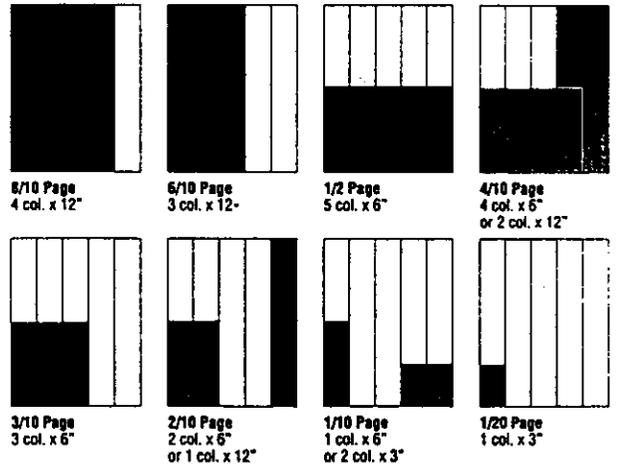
Full page rates apply only to single insertion ads.

Advertisers can fulfill their contracts as shown below:

- 2 consecutive Thursdays or Sundays or a Thursday/Sunday buy
- 4 consecutive Thursdays or Sundays or 2 Thursday/Sunday buys
- 6x commences with first insertion date, expires 13 calendar weeks
- 13x commences with first insertion date, expires 26 calendar weeks
- 26x commences with first insertion date, expires 52 calendar weeks

Each insertion will be counted towards contract fulfillment. If advertiser publishes three (3) ads in different zones on same day, each ad will count towards contract fulfillment.

Frequency is based on the number of ads. Advertisers can run any modular ad size.



Also available: 2 col. x 4", 5 col. x 3" strip ad and a 5 col. x 12" full page. One column is 1-7/8" wide.

ZONES

- Zone 1:** Cutler Ridge, Florida City, Goulds, Homestead, Naranja, Perrine, Redland
- Zone 2:** Kendall, Suniland, West Kendall, Sweetwater, West Miami
- Zone 3:** Coral Gables, South Miami, Little Havana, Coconut Grove, Miami, Key Biscayne, West Miami, Richmond Heights
- Zone 4:** Country Club of Miami, Doral, Hialeah, Hialeah Gardens, Medley, Miami Lakes, Miami Springs, Palm Springs North
- Zone 5:** Allapattah, Brownsville, Bunche Park, Edison, Liberty City, Little Haiti, Opa-Locka, Overtown, West Little River, Wynwood
- Zone 6:** Aventura, Biscayne Park, El Portal, Golden Beach, Little Haiti, Miami Shores, Morningside, North Miami, North Miami Beach, Sunny Isles.
- Zone 7:** Bal Harbour, Bay Harbor Islands, Golden Beach, Indian Creek Village, Miami Beach, North Bay Village, Sunny Isles, Surfside.

Advertisers will be billed at the earned rate for advertising purchased and published beginning the month following the date on which the advertiser satisfies the lineage or frequency level required for that rate during the contract term. No advertiser will receive an automatic rebate on past advertising purchases solely by qualifying for a lower earned rate during the contract term.

Neighbors Color Rates

Color rates are flat rates. Minimum ad size for color is four inches. Charges are for color inks only; they do not include other mechanical charges. Standard AdPro letterpress color inks are used. Special inks will be ordered upon two weeks advance notice. The Herald will make every effort to meet your request for choice of colors, within production limits. Contact your Herald advertising representative for more information.

Color Rates

	One Color	Two Colors	Full Color
Zones 2 - 7			
Flat Rate - Full or (Part Page)	\$200.00	\$275.00	\$350.00
Double Truck	260.00	358.00	455.00
Zone 1			
Flat Rate - Full or (Part Page)	100.00	175.00	250.00
Double Truck	130.00	227.50	325.00

Printing Process: Offset, 85-line Screen. Contact your Herald advertising representative for a complete list of printing specifications.

Tabloid Column Widths

No. of Columns	Picas & Points	Inches
1	11.6	1-7/8"
2	24.0	4"
3	36.6	6-1/16"
4	49.0	8-1/8"
5	61.9	10-1/4"
Tabloid Double Truck	126.0	21"
Tabloid Page Depth		12"

Charity and Not for Profit

Daily/Zone 1 or 5 or 7	\$6.75	Daily/Zone 4	\$9.00
Sunday/Zone 1 or 5 or 7	7.70	Sunday/Zone 4	11.50
Daily/Zone 2 or 3 or 6	13.45		
Sunday/Zone 2 or 3 or 6	16.40		

Political Rates

Billed at the 6x Miami-Dade Neighbors Rate

Miami-Dade Neighbors Academic Rate

Billed at the 13x Miami-Dade Neighbors frequency rate

Miami-Dade Zoned Package Rates

AUTO CARE/EVERYTHING FOR KIDS

A 2 col. x 4" ad in Neighbors' Auto Care advertising feature can be placed in Wednesday's El Nuevo Herald and Neighbors on Thursday and Sunday. A 2 col. x 4" ad in the Everything for Kids advertising feature can be placed in Tuesday's El Nuevo Herald and Neighbors on Thursday and Sunday.

NEIGHBORS AND BROWARD COMBO
Zones 6 or 7

Includes one ad in Thursday and Sunday Neighbors, plus an ad in Wednesday Broward News.

1X	\$290.00
6X	260.00
13X	232.00

Additional zones: \$124.00 per zone.

NEIGHBORS/EL NUEVO HERALD COMBO
Zones 1, 2, 3, 4 or 5

Includes one ad in Thursday and Sunday Neighbors, plus an ad in El Nuevo Herald.

1X	\$316.00
6X	285.00
13X	253.00

RESTAURANT (KNIFE & FORK) RATE

A 2 col. x 3" restaurant ad in Neighbors' Knife and Fork advertising feature can be placed in Thursday Neighbors, South Weekend and El Nuevo Herald's Viernes.

Open	\$546.00	26X	\$337.00
13X	364.00	39X	312.00

Miami-Dade Neighbors Ad Deadlines

	Thursday	Sunday
Space Reservation	Monday 5 PM	Thursday 5 PM

Monroe County Zoned Editions

The Miami Herald and its parent company, Knight Ridder Inc., own two newspapers in the Florida Keys that mainland advertisers can use to reach Monroe County's 85,000 permanent residents.

The Florida Keys Keynoter, published Wednesday and Saturday mornings, circulates throughout the Keys from Key Largo to Key West. The Reporter, published Thursdays, circulates in the Upper Keys.

Both newspapers serve an area where a scarcity of "big ticket" item stores has created a market that's willing to drive north to Miami-Dade County to save money on cars, electronics, home furnishings and other major purchases.

On Wednesdays, The Herald offers a special combo buy: for just \$2 per column inch over the Keynoter's regular rate, advertisers can reach more than 48,000 consumers throughout the Keys with an ad in both the Keynoter and The Herald's Keys Edition. The Saturday combo rate is \$8.10 per column inch over the Keynoter rate.

An advertiser can reach consumers throughout the Keys as well as Cutler Ridge, Florida City, Goulds, Homestead, Naranja, Perrine and the Redlands. If an advertiser has a location only in the Keys and runs in the Keynoter and Reporter first, The Miami Herald offers a pick-up combo buy into the South Dade Neighbors on Thursdays or Sundays at \$5.00 per column inch. The copy, size and text of the ad may change. See Miami-Dade Neighbors for modular sizes.

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

Main Office.....	(305) 376-2820
South, Southwest.....	671-4300
● North, Northwest, Miami Beach & South Beach	653-2438

Broward Retail Advertising.....(954) 985-4595

Palm Beach Retail Advertising(561) 848-3341

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications".

All rates current at time of publication.

For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>.

Miami Herald-Printed Newspaper Inserts

The Miami Herald offers very competitive rates for printing newsprint inserts. Delivery costs are additional and must be added to the printing costs. Color is available and is priced based on the quantity printed.

Minimum size is 6-page standard/12-page tab for free-standing all-advertising sections. Upgraded paper is available. Miami Herald-printed newsprint inserts count the same as advertiser-printed inserts toward fulfillment of preprint frequency contracts. Section inches count toward ROP and preprint contract fulfillment but not rebates.

Herald Card Inserts

Herald Card inserts in The Miami Herald, El Nuevo Herald and Herald Values are a cost-effective way to target your prospects. Herald Card will print, insert and deliver in any of the zones offered. We offer five sizes: Detached (3-1/2" X 8-1/2"), Compact Card (5-1/2" X 8-1/2"), Economy (5-1/2" x 11"), Midsize (8-1/2" X 11") and Luxury (11" X 17"). A minimum order is 20,000. Rates vary according to quantity, paper stock and number of colors used.

HERALD CARD DEADLINES

Copy with proof	Thursday, 14 days prior
Copy without proof/Space	Friday, 13 days prior
Camera-ready art	Friday noon, 10 days prior
Needing translation	Three days earlier

Custom Printing & Distribution

The Herald can custom design a Print & Deliver program using a variety of paper choices, sizes and configurations. For additional information on our programs, contact The Herald's Target Marketing Department at (305) 376-3180 (from Broward, call toll-free 764-7026, ext. 3180).

Herald Values Retail Advertising Rates

This colorful, tab-size preprint jacket is distributed weekly by mail and doorstep-delivery to some 725,000 (annual average) subscribers and non-subscribers throughout Miami-Dade and Broward counties, offering 90 percent penetration within our market area. (Distribution numbers are revised quarterly.)

	OPEN	6X	12X	26X
Front Cover	\$16/M	\$14/M	\$13/M	\$12/M
Back Cover	\$15/M	\$13/M	\$12/M	\$11/M
Inside Pages	\$9/M	\$8/M	\$7/M	\$7/M

Insert Deadlines – Herald Values

Space reservations: In writing, at least four weeks prior to delivery date. Must be confirmed with your Herald advertising representative.
Materials: Must be provided on disk three weeks prior to insertion date.

Post-it™ Notes

Advertisers now have the opportunity to put their message on the front page of The Miami Herald with the Post-it™ Note program.

Post-it™ Notes are available every day on home-delivered papers, in English and/or Spanish, in a variety of sizes and colors. Select your target market by combining zip codes or Neighbors zones, or extend your coverage to all of Miami-Dade, Broward or both counties.

For more information about Post-it™ Notes, contact your Herald advertising representative or call (305) 376-3180. In Broward call 764-7026, ext. 3180.

POST-IT™ NOTES ADVERTISING RATES

	1 Color	2 Color	3/4 Color	2nd Side
3" x 4"				
Full Run	\$80.00	\$83.00	\$86.00	+ \$4.00/M
Miami-Dade	85.00	88.00	91.00	+ \$4.00/M
Hispanic	85.00	88.00	91.00	+ \$4.00/M
Zoned	90.00	93.00	96.00	+ \$4.00/M
4" x 4"				
Full Run	\$85.00	\$88.00	\$91.00	+ \$4.00/M
Miami-Dade	90.00	93.00	96.00	+ \$4.00/M
Hispanic	90.00	93.00	96.00	+ \$4.00/M
Zoned	95.00	98.00	101.00	+ \$4.00/M
3" x 5"				
Full Run	\$90.00	\$93.00	\$96.00	+ \$4.00/M
Miami-Dade	95.00	98.00	101.00	+ \$4.00/M
Hispanic	95.00	98.00	101.00	+ \$4.00/M
Zoned	100.00	103.00	106.00	+ \$4.00/M

Second side can be printed in any 2 colors from selection chart. Black ink is considered a color. Please add the number of colors on both sides to determine total color cost. All prices based on receiving camera-ready art. If help is needed to prepare ad, please call your Herald advertising representative. Full run means all Miami-Dade and Broward counties. Zoned means zips, Neighbors zones or Broward. Minimum quantity 50,000. Hispanic means 18 predominantly Hispanic zip codes in Miami, Hialeah, Little Havana, Sweetwater and Westchester in Miami-Dade County. Deadline for material: 25 days prior to publication date. Rates quoted in cost per thousands.

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

Main Office.....(305) 376-2820
 South, Southwest.....671-4300
 North, Northwest, Miami Beach & South Beach.....653-2438
 Broward Retail Advertising.....(954) 985-4595
 Palm Beach Retail Advertising.....(561) 848-3341

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications". All rates current at time of publication. For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>.

2000 The Miami Herald/El Nuevo Herald

Retail Preprints**Preprint Advertising Options**

The Miami Herald and El Nuevo Herald offer advertisers a variety of preprint advertising options: Miami Herald-printed newsprint inserts, advertiser-printed inserts, plus custom printing and distribution.

AVAILABILITY

Delivery of printed inserts is available on Thursday, Friday and Sunday in The Herald, and Sunday in El Nuevo Herald. Delivery is also available in our non-subscriber product on Tuesdays. Advertising supplements can also be inserted into the Business Monday section (consult your Herald advertising representative for rates).

GEOGRAPHIC ZONING OPTIONS

The Miami Herald offers zoning options that allow you to select that portion of Herald circulation which best suits your marketing objectives. On Thursdays, Fridays and Sundays, you may select from among seven zones in Miami-Dade County and five in Broward County. On Tuesdays and Thursdays, you may "define your own zone" by choosing from among more than 125 zip codes in Miami-Dade and Broward. Delivery is also available in Palm Beach and Monroe counties, and along Florida's Gulf Coast.

Target subscribers in Miami-Dade and Broward counties by distributing your insert within The Miami Herald and/or El Nuevo Herald. Saturate your target market by distributing your insert in Herald Values, delivered weekly to approximately 725,000 subscriber and non-subscriber households in Miami-Dade and Broward. Or, target the huge Hispanic market by distributing in Miami-Dade's predominantly Hispanic zip codes. You can reach 113,000 Hispanic subscriber households through El Nuevo Herald or saturate the Hispanic market by reaching 260,000 subscriber and non-subscriber households.

Special rates are available for subscriber/non-subscriber combo buys. Contact your Herald advertising representative for more information.

REQUIREMENTS

Due to seasonal circulation variance in the South Florida market, please consult your Herald advertising representative at least 30 days in advance of each insertion date to determine the exact quantities you will need. (Minimum quantities are: Monday - 60,000; Tuesday - 20,000; Thursday - 25,000; Friday - 25,000; Sunday - 100,000.)

Please submit space reservations in writing three weeks prior to insertion date. All supplements should be delivered to Miami Herald facilities no earlier than 21 days prior to insertion date, and no later than 10 days prior to insertion date.

Inserts are subject to a 5" x 7" minimum page size and an 11" x 12" maximum page size. Single sheet inserts must also be at least 7 points in thickness (75 lb. stock is recommended).

Contact your Herald advertising representative for a free copy of The Miami Herald/El Nuevo Herald Preprint Guidelines handbook.

ADVERTISER-PRINTED INSERT RATES-PART RUN

The following rates apply to distribution quantities of less than full run Daily and Sunday.

	Cost Per Thousand		
	1-13 Per Year	14-26 Per Year	27-52 Per Year
Single Sheet	\$37.35	\$36.15	\$35.65
4 Tab Pages	39.60	38.45	37.35
6 Tab Pages	45.85	44.70	42.45
4 Standard/8 Tab Pages	50.95	49.80	48.65
10 Tab Pages	53.20	52.05	50.95
6 Standard/12 Tab Pages	56.60	55.45	54.35
14 Tab Pages	59.45	58.30	57.15
8 Standard/16 Tab Pages	62.30	61.15	60.05
18 Tab Pages	65.70	64.60	62.30
10 Standard/20 Tab Pages	68.00	66.85	63.45
22 Tab Pages	71.40	69.10	64.60
12-14 Standard/24-28 Tab Pages	74.20	70.25	65.15
30 Tab Pages	76.50	72.50	65.70
16-20 Standard/32-40 Tab Pages	79.30	74.20	66.85
42 Tab Pages	81.60	76.50	69.10
22+ Standard/44+ Tab Pages	83.90	79.30	71.95

	Cost Per Thousand	
	53-91 Per Year	92+ Per Year
Single Sheet	\$35.00	\$33.90
4 Tab Pages	36.15	35.00
6 Tab Pages	41.30	40.15
4 Standard/8 Tab Pages	46.95	46.40
10 Tab Pages	49.80	48.65
6 Standard/12 Tab Pages	53.20	52.05
14 Tab Pages	56.05	54.90
8 Standard/16 Tab Pages	58.85	57.75
18 Tab Pages	61.75	60.05
10 Standard/20 Tab Pages	62.30	61.20
22 Tab Pages	63.45	61.75
12-14 Standard/24-28 Tab Pages	64.00	62.30
30 Tab Pages	64.60	62.90
16-20 Standard/32-40 Tab Pages	65.15	63.45
42 Tab Pages	66.85	64.00
22+ Standard/44+ Tab Pages	68.00	64.60

ADVERTISER-PRINTED INSERTS - FULL RUN

On full run distribution daily or Sunday, discount \$5.00 per thousand. On full run frequency of 53 times or more, discount an additional \$3.00 per thousand.

EL NUEVO HERALD PREPRINTS

Any advertiser-printed insert in El Nuevo Herald qualifies for a \$5.00 per thousand discount off Herald distribution rates.

SATURATION RATES

Please contact your Herald advertising representative for more information.

ADVERTISER DISCOUNTS

Special discount rates are available for advertiser-printed inserts that run in both The Herald/El Nuevo Herald and in our Total Market Coverage program (contact your Herald advertising representative for details). Full-run and part run advertising sections which are priced at published rate card rate and that are distributed with The Herald or El Nuevo Herald apply toward fulfillment of lineage contracts. Insert inches are calculated based on a standard number of inches per page (standard, tabloid or mini-tabloid), the number of pages and distribution volume.

Advertisers will be billed at the earned rate for advertising purchased and published beginning the month following the date on which the advertiser satisfies the lineage or frequency level required for that rate during the contract term. No advertiser will receive an automatic rebate on past advertising purchases solely by qualifying for a lower earned rate during the contract term.

Street Retail Advertising Rates

Street is a weekly guide to what's going on, with special emphasis on the hot spots and high life of South Beach and Coconut Grove.

Edgy, colorful and hedonistic, Street is written and edited for South Florida's young and restless. Movies, events, dining, theatre, dance and nightlife share the spotlight in this free, tabloid publication.

Street is distributed throughout Miami-Dade County in racks and at select locations.

Circulation: 75,000

Retail Rates (Miami-Dade only)

SIZE	INCHES	OPEN	6X	13X	26X
full page	60.00	\$2,211.00	\$1,901.00	\$1,749.00	\$1,452.00
8/10	48.00	1,803.00	1,551.00	1,427.00	1,184.00
6/10	36.00	1,380.00	1,187.00	1,092.00	906.00
5/10	30.00	1,173.00	1,009.00	928.00	770.00
4/10	24.00	957.00	823.00	757.00	629.00
3/10	18.00	732.00	630.00	579.00	481.00
2/10	12.00	498.00	428.00	394.00	327.00
1/10	6.00	254.00	218.00	201.00	167.00
1/20	3.00	139.00	119.00	110.00	91.00
strip ad	15.00	616.00	530.00	488.00	405.00

Retail Pick Up Rates (Miami-Dade only)

SIZE	INCHES	OPEN	6X	13X	26X
full page	60.00	\$1,547.00	\$1,331.00	\$1,224.00	\$1,016.00
8/10	48.00	1,262.00	1,086.00	999.00	829.00
6/10	36.00	966.00	831.00	764.00	634.00
5/10	30.00	821.00	706.00	650.00	539.00
4/10	24.00	670.00	576.00	530.00	440.00
3/10	18.00	513.00	441.00	406.00	337.00
2/10	12.00	348.00	300.00	276.00	229.00
1/10	6.00	178.00	153.00	141.00	117.00
1/20	3.00	97.00	83.00	77.00	64.00
strip ad	15.00	431.00	371.00	341.00	283.00

An advertiser who publishes an ad in any Miami Herald product can pick up the same ad, within 7 days, at the pick up rate. Pick up advertisements must be the same size or larger and contain the same copy points.

Restaurant & Club Rates (Miami-Dade only)

SIZE	INCHES	OPEN	6X	13X	26X
full page	60.00	\$1,547.00	\$1,330.00	\$1,224.00	\$1,016.00
8/10	48.00	1,262.00	1,085.00	998.00	828.00
6/10	36.00	966.00	830.00	764.00	634.00
5/10	30.00	821.00	706.00	649.00	539.00
4/10	24.00	669.00	576.00	529.00	440.00
3/10	18.00	512.00	441.00	405.00	336.00
2/10	12.00	348.00	299.00	275.00	228.00
1/10	6.00	177.00	152.00	140.00	116.00
1/20	3.00	97.00	83.00	77.00	63.00
strip ad	15.00	431.00	371.00	341.00	283.00

Restaurant & Club Pick Up Rates (Miami-Dade only)

PICK UP RATE	SIZE	INCHES	OPEN	6X	13X	26X
full page	60.00		\$1,326.00	\$1,140.00	\$1,049.00	\$871.00
8/10	48.00		1,081.00	930.00	856.00	710.00
6/10	36.00		828.00	712.00	655.00	543.00
5/10	30.00		703.00	605.00	556.00	462.00
4/10	24.00		574.00	493.00	454.00	377.00
3/10	18.00		439.00	378.00	347.00	288.00
2/10	12.00		298.00	256.00	236.00	196.00
1/10	6.00		152.00	130.00	120.00	100.00
1/20	3.00		83.00	71.00	66.00	54.00
strip ad	15.00		369.00	318.00	292.00	243.00

Restaurant (Fork & Knife) Rate (Miami-Dade only)

A 2 col. x 3 ad in Fork and Knife advertising feature can be placed in Street as well as one Thursday Neighbors Zone, South Weekend and El Nuevo Herald's Viernes.

Miami-Dade Knife & Fork Rate 2 col x 3" Total Inches

	RATE
Open	\$673
13x	473
26x	437
39x	395

*Package includes 6 inches in each product, South Weekend, Viernes one Miami-Dade Neighbors, and Street.

Charity Rate Per Inch \$19

Academic Rate 60% of the open rate

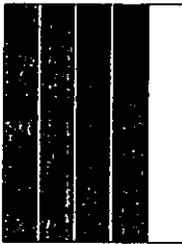
Political Rate 6x frequency rate

Color Rates

	RATE
One Color	\$125
Two Color	250
Full Color	500

NOTE: All rates are gross – 15% commission to recognized advertising agencies.

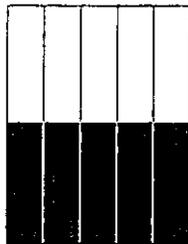
Modular Sizes



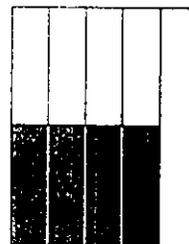
8/10 Page
4 col. x 12"



6/10 Page
3 col. x 12"



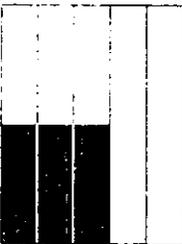
1/2 Page
5 col. x 6"



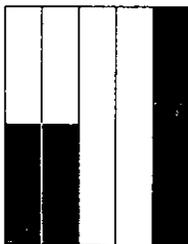
4/10 Page (Horiz.)
4 col. x 6"



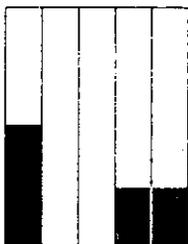
4/10 Page (Vert.)
2 col. x 12"



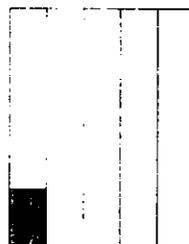
3/10 Page
3 col. x 6"



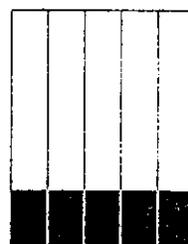
2/10 Page
2 col. x 6"
or 1 col. x 12"



1/10 Page
1 col. x 6"
or 2 col. x 3"



1/20 Page
1 col. x 3"



5 col. x 3" Strip Ad

Also available: 5 col. x 12" full page.
One column is 1-7/8" wide.

Street Deadline

Friday, 6:00 PM.....Proof Ads
Tuesday, 5:00 PM.....Space Deadline
Tuesday, 5:00 PM.....No Proof Deadline
Tuesday, 5:00 PM.....Camera Ready

For More Information

Contact your Herald advertising representative or call Patrick Flood at (305) 376-2614 (from Broward, call toll-free 764-7026, ext. 2614).

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications". All rates current at time of publication. For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>.

Retail TV Week Rates

FULL RUN RATES (Miami-Dade & Broward/Palm Beach Counties)

Ad Sizes	1x	4x	8x	13x	26x	39x	52x
Full Page	\$5,500	\$4,400	\$4,290	\$3,630	\$3,190	\$2,915	\$2,750
3/4 Page	4,125 3,300	3,300	3,218	2,723	2,393	2,186	2,063
3/5 Page NEW SIZE	3,300	2,640	2,574	2,178	1,914	1,749	1,650
1/2 Page	2,750	2,200	2,145	1,815	1,595	1,458	1,375
1/3 Page	1,832	1,465	1,429	1,209	1,062	971	916
3/10 Page NEW SIZE	1,650	1,320	1,287	1,089	957	875	825
1/4 Page	1,375	1,100	1,073	908	798	729	688
1/5 Page	1,100	880	858	726	638	583	550
1/8 Page	688	550	536	454	399	364	344
1/10 Page	550	440	429	363	319	292	275
Grid Strip (incl. 1 color charge)	1,367	n/a	n/a	902	793	725	684

Color Rates:

1 Colors \$200

2 Colors \$400

Full Color \$600

TV WEEK MODULAR AD SIZES

Deadline: Monday / 13 days prior



Full Page
Back Cover or Inside
Covers 5 Col. x 10"



3/4 Page
5 Col. x 7-1/2"



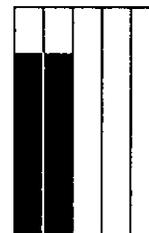
3/5 Page
3 Col. x 10"



1/2 Page
5 Col. x 5"



1/3 Page (H)
5 Col. x 3-1/4"



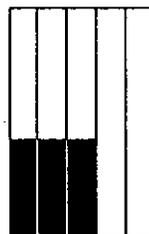
1/3 Page (V)
2 Col. x 8"



3/10 Page
3 Col. x 5"



1/4 Page (H)
5 Col. x 2-1/2"



1/4 Page (V)
3 Col. x 4-1/4"



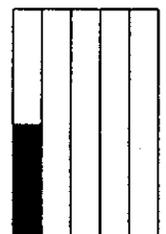
1/5 Page (V)
1 Col. x 10"



1/5 Page
2 Col. x 5"



1/8 Page
5 Col. x 1-1/4"



1/10 Page
1 Col. x 5"

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

Main Office.....(305) 376-2820
 South, Southwest.....671-4300
 North, Northwest, Miami Beach & South Beach.....653-2438

Broward Retail Advertising.....(954) 985-4595

Palm Beach Retail Advertising.....(561) 848-3341

Clip and Save: TV Week Feature

Banner ads inside TV Week are seen all week!

2 col. x 2" \$250.00
 2 col. x 4" \$500.00

Deadline: Monday, 13 days prior.

Advertisers will be billed at the earned rate for advertising purchased and published beginning the month following the date on which the advertiser satisfies the lineage or frequency level required for that rate during the contract term. No advertiser will receive an automatic rebate on past advertising purchases solely by qualifying for a lower earned rate during the contract term.

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications".

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2000 The Miami Herald/El Nuevo Herald

Retail Sunday Color Comics Rates

SUNDAY COLOR COMICS – STANDARD SECTION

Space is available in the Sunday Miami Herald Comics section in the following unit sizes:

Unit Sizes	Herald
Double Truck	N/A
Full Page	120"
2/3 Page	80"
1/2 Page	60"
1/3 Page	40"
1/4 Page	25.5"
1/6 Page	18"
1" impact strip	6"
Spadea	240"
Comic Gatefold	120"

Rates for Sunday Herald Comics are the same as Sunday ROP contract rates. There is no additional color charge for comics advertisers.

COMICS SPADEA WRAP

Retail advertisers may purchase a spadea wrap-around sheet that wraps in half around the Sunday Comics. The spadea is based on a total of 240"; gatefold total is 120". All lineage run counts toward fulfillment of the ROP contract. Production time for preparation and color separations by The Miami Herald is subject to production charges.

Format	Rate
Comic Gatefold	\$10,500.00
Comic spadea wrap	19,137.00
4 page press fed comic tabloid	19,137.00
8 page press fed comic tabloid	31,391.00
2nd full run comic spadea, same day	16,888.00

COUNTY COMICS SPADEA WRAP

Format	Rate
Miami-Dade Zone Comics Spadea	\$13,685.00
Broward Zone Comics Spadea	\$5,539.00

ZONED COMIC SPADEA RATES

Miami-Dade	Rates
Zone 1	\$1,495.00
Zone 2	2,874.00
Zone 3	3,094.00
Zone 4	1,850.00
Zone 5	1,359.00
Zone 6	2,381.00
Zone 7	1,304.00

Broward	Rates
Zone 8	\$1,711.00
Zone 9	\$1,499.00
Zone 10	\$1,158.00
Zone 11	\$858.00
Zone 12	\$866.00

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

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South, Southwest.....	671-4300
North, Northwest, Miami Beach & South Beach.....	653-2438
Broward Retail Advertising.....	(954) 985-4595
Palm Beach Retail Advertising.....	(561) 848-3341

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications".

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Retail Color Rates

Color rates are flat rates. Minimum ad size for color is four inches. Charges are for color inks only and do not include other mechanical charges. Standard AdPro letterpress color inks are used. Special inks will be ordered upon two weeks notice. The Herald will make every effort to meet your request for choice of colors, within production limits.

Flat Rate - Full or Part (Page)

Product	One Color	Two Colors	Full Color
Miami Herald			
Daily	\$1,648	\$2,266	\$2,781
Sunday	1,906	2,575	3,090
El Nuevo Herald/Viernes			
Daily & Sunday	592	721	876
Domingo Social	368	525	525
Broward Products & International Edition			
Local/Business/Food	386	515	644
Neighbors Zones 2-7	200	275	350
Neighbors Zone 1	100	175	250
Hometown Herald	232	335	412
Weekend South Zone	1,071	1,473	1,808
Weekend North Zone	386	515	644
TV Week	200	400	600
Miami Herald Special Sections			
Daily	412	530	1,061
Sunday	494	636	1,273
El Nuevo Herald Special Sections			
Daily	300	400	650
Sunday	360	480	780

Charity color rates = 50% of the Product color rate

Color Separations

Color scans (4-color separations) are charged at \$375 for the first separation and \$75 for each additional separation.

There is a color plate charge if you furnish registered black proofs of color separated negatives.

Double Truck

Product	One Color	Two Colors	Full Color
Miami Herald			
Daily	\$2,142	\$2,946	\$3,615
Sunday	2,477	3,348	4,017
El Nuevo Herald/Viernes			
Daily & Sunday	773	937	1,138
Broward Products & International Edition			
Local/Business/Food	505	670	839
Neighbors Zones 2-7	260	358	455
Neighbors Zone 1	130	227.50	325
Hometown Herald	304	438	536
Miami Herald Special Sections			
Daily	536	690	1,380
Sunday	643	827	1,655
El Nuevo Herald Special Sections			
Daily	390	520	845
Sunday	468	624	1,014

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

Main Office.....(305) 376-2820
 South, Southwest.....671-4300
 North, Northwest, Miami Beach & South Beach.....653-2438

Broward Retail Advertising.....(954) 985-4595

Palm Beach Retail Advertising.....(561) 848-3341

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications".

All rates current at time of publication.

For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>.

Advertisers will be billed at the earned rate for advertising purchased and published beginning the month following the date on which the advertiser satisfies the lineage or frequency level required for that rate during the contract term. No advertiser will receive an automatic rebate on past advertising purchases solely by qualifying for a lower earned rate during the contract term.

2000 The Miami Herald/El Nuevo Herald

Special Retail Classifications

Religious, Charity, Civic & Cultural Rates

These rates apply to local not-for-profit groups providing unique non-profit services or conducting a specific event that is beneficial to the community. Advertisers must submit a charity application form, along with information on the purpose of the activities or event, a copy of their proposed ad, and, if applicable, a letter of confirmation from any charitable organization receiving revenues or donations. This information must be received, reviewed and approved by The Miami Herald's policy advisor before ad is scheduled to run. Publication dates and positioning are at the newspaper's discretion. Please call your Herald advertising representative for more information.

Charity

	DAILY	SUNDAY
Full Run Miami Herald	\$71.85	\$86.30
El Nuevo Herald	23.50	26.00
Neighbors 1, 5, 7	6.75	7.70
Neighbors 2, 3, 6	13.45	16.40
Neighbors 4	9.00	11.50
Weekend	50% Of Open Rate	N/A
The Jewish Herald	19.00	N/A
Street	19.00	N/A

If a special position is ordered (i.e. "A" section, Business Monday, Sports), position premiums apply. Charity rates are not available for certain products. Please contact your Herald representative for more information.

CHARITY INSERTS

Charity preprints are charged at the lowest contract rate for the size run.

Academic/Vocational/Education Rates

These rates apply to all public, parochial and non-profit schools, which include kindergarten through 12th grade, vocational schools and institutions of higher education. All schools must be approved by advertising management.

If a special page position is requested (i.e. "A" section, Business Monday, Sports), position premiums will apply.

DAILY & SUNDAY

Full Run Miami Herald	60% Of Open Rate
El Nuevo Herald	60% Of Open Rate
Neighbors	13X Frequency Rate
The Jewish Herald	13X Frequency Rate
Street	60% Of Open Rate

ACADEMIC PREPRINTS

Preprints run by Academic/Vocational/Education advertisers are charged at the lowest contract rate for the size run.

Advertisers will be billed at the earned rate for advertising purchased and published beginning the month following the date on which the advertiser satisfies the lineage or frequency level required for that rate during the contract term. No advertiser will receive an automatic rebate on past advertising purchases solely by qualifying for a lower earned rate during the contract term.

Political Rates

The Miami Herald and El Nuevo Herald offers special rates to political advertisers in the full-run Herald, and in zoned editions and sections: Broward Edition, Miami-Dade Neighbors, Broward Hometown Herald and El Nuevo Herald.

DAILY & SUNDAY

Full-Run Miami Herald	75* Contract Rate
El Nuevo Herald	75* Contract Rate
Neighbors	6x Frequency Rate
Weekend	75* Contract Rate
The Jewish Herald	6x Frequency Rate
Street	6x Frequency Rate

POLITICAL REPEAT RATES

Any advertiser that runs the same ad three or more times within a 7 day period, i.e. Monday-Sunday, will receive 30% off the 75* contract rate on their second ad and 50% off of the 75* contract rate on their third ad and all subsequent ads up to the 7th ad. Offer good on full-run, El Nuevo Herald and Broward Herald rates.

Retail Remnant Advertising

Retail remnant advertising is sold only on a space-available basis. Discounted remnant rates are available for full-run Miami Herald, The Herald and El Nuevo Herald, in the following sizes:

	The Miami Herald	El Nuevo Herald
Full Page:	6 col. x 21"	6 col. x 22-1/2"
Half Page Horizontal:	6 col. x 10-1/2"	6 col. x 11"
Half Page Vertical:	3 col. x 21"	3 col. x 22-1/2"
Quarter Page:	3 col. x 10-1/2"	3 col. x 11"
Tabloid Full Page:	5 col. x 12"	5 col. x 12"

GENERAL REQUIREMENTS

- Remnant ads must be ordered seven days in advance.
- All remnant ads must be ordered to publish within a seven-day period rather than for a specific date. A six-day schedule may be requested if advertiser prefers not to run on Sunday.
- Only one copy correction is available for multiple remnant insertions in one week.
- Outproofs require three extra working days prior to deadline; only one copy correction allowed per outproof.
- Client must have a minimum 40* contract to place remnant ads.
- Remnant ads do not count toward fulfillment of contracts nor toward rebates.
- The revenue from remnant ads run during any given month should not exceed the revenue from contract ads run during the same month.
- No remnant rate for color ads.
- Political advertising is not eligible for remnant rates.
- All remnant ads are run at the Publisher's option.
- Standard make-good and adjustment prices as well as credit and collection policies apply to remnant ads.
- All ads are subject to all requirements and mechanical specifications currently contained in The Miami Herald Retail Rate Card.
- Remnant ads are accepted in the following products: Miami Herald Full Run, El Nuevo Herald and the Comics. Position requests or section specifications cannot be guaranteed.
- There is no remnant space in premium or zoned products: Weekend, Business Monday, Domingo Social, Hometown Herald, Neighbors, etc.

Retail Directories

The Miami Herald and El Nuevo Herald offer many opportunities to promote advertising for a variety of businesses through the use of directory listings. Copy is a 4-line minimum with no maximum and is placed under a banner heading with similar businesses.

For rates and more information, call Retail Advertising at (305) 376-2780 (from Broward, call 764-7026, ext. 2780).

Directories include:

Religious Directory
Travel Directory

Catch the Buys

Appearing every Wednesday in The Miami Herald, the "Catch The Buys" banner page features special buys in a variety of goods and services. Fifteen modular-size ads (approximately 2 col. x 4") are grouped together on a standard-size page under an attention getting banner.

An ad at the open rate is available for \$927.00 per ad. Substantial discounts are available when running multiple ads within a 12 month period (see table below).

Contract Size:	1X	6X	13X	26X	52X
Discount	0%	5%	10%	15%	20%
Rate	\$927.00	\$880.65	\$834.30	\$787.95	\$741.60

In addition, "Catch The Buys" advertisers can run the same ad within seven days for 30% off the regular rate. A third and all subsequent ads run within seven days will be billed at 50% off the regular rate, excluding Sunday.

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

Main Office.....	(305) 376-2820
South, Southwest.....	671-4300
North, Northwest, Miami Beach & South Beach	653-2438
Broward Retail Advertising.....	(954) 985-4595
Palm Beach Retail Advertising.....	(561) 848-3341

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications".

All rates current at time of publication.

For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>.

Interesting, MYI.
Scott

2000 The Miami Herald/El Nuevo Herald

Special Services

The Miami Herald offers a full array of integrated marketing services. Working in tandem with your in-paper advertising, they provide targeted and cost-effective solutions to your sales challenges.

Herald Direct

The Herald has developed one of the most effective distribution systems in South Florida, supplementing the power of paid circulation with shared and solo direct mail programs.

Herald Values reaches 725,000 (annual average) subscribers and non-subscribers throughout Miami-Dade and Broward counties. (Sales numbers are adjusted quarterly.) This high-impact preprint jacket offers four affordably priced full-color ad positions. You can also use Herald Values to target your pre-printed inserts to subscribers and non-subscribers by zip code. We'll also deliver your insert to subscribers in the newspapers and solo mail to your customers and prospects who aren't subscribers.

Target Marketing also offers a variety of custom printing services such as inserts, custom printing & distribution, and Post-It notes. For more information on these and other Target Marketing services, please refer to The Miami Herald 2000 Retail Preprints Insert.

In addition, The Herald also offers turnkey direct mail services; list work, creative, printing, and lettershop services.

HeraldBase

The HeraldBase Solutions Group maintains South Florida's most comprehensive marketing databases. These carefully maintained consumer, commercial and trade lists are derived from subscriber information, property records, motor vehicle registrations, market research, product usage, shopping data and a variety of other sources.

HeraldBase leverages this vital information to provide you with the means to assist you in improving your customer knowledge. Discover the factors and forces influencing their buying decisions, and your most effective ways to consistently reach — and motivate — them.

With state-of-the-art software, intelligence and data resources, HeraldBase will design and implement cost-effective marketing programs for your business.

- **Data Collection** — HeraldBase designs, conducts and administers custom programs to help you collect customer and prospect data.
- **Data Handling** — In addition to merge-purge services, HeraldBase sorts and stabilizes your customer list, enhancing it with current demographic and psychographic data, optimizing it for best postal rates.
- **Statistical Analysis & Segmentation** — HeraldBase offers a full suite of statistical tools to help you understand your customers and their purchase behavior.
- **Mapping Services** — By mapping your trade area(s), customer addresses and competitor locations, HeraldBase custom-designs geographically targeted marketing programs to make the most effective use of your advertising budget.
- **Mailing Lists** — HeraldBase will create and maintain custom mailing lists for your business, based on your unique requirements.

Co-op Advertising

Co-op programs allow retailers to share advertising costs with their suppliers. The Herald tracks applicable programs and helps assess your qualification for co-op advertising funds. We also help you locate and qualify for other appropriate vendor support programs (promotional partnerships with manufacturers and distributors) providing additional advertising funds above and beyond traditional co-op advertising dollars.

Your Herald co-op representative can help you formulate your most efficient and effective media plan, and handle all co-op billing.

CAP PLUS

The Herald's CAP Plus advertising program gives you the ability to market with increased frequency at greatly reduced cost. CAP Plus combines the money-saving features of co-op "multiple dealer listings" ads with the singular exposure offered by individual ads. Retailers, distributors and manufacturers are all partners in support of a common advertising program.

For more information on how co-op advertising and CAP Plus can work for your business, contact your Herald advertising representative or call the Co-op Advertising Sales Department at (305) 376-2758.

Product Sampling

HeraldDirect delivers product samples to subscribers (and non-subscribers in 18 predominantly Hispanic zip codes).

Audio Products

VOICE PERSONALS

Voice Personals is The Herald's popular meet-by-phone service for South Florida singles. Hundreds of ads run every week in Friday's *Weekend* section and on Sunday. In El Nuevo Herald, Voice Personals becomes *Persona a Persona*, published Tuesday and Sunday in *Galería* and Thursday in *Viernes*.

Creative Services

The Miami Herald's Creative Services Department provides advertisers with concept, copy, art direction, layout and production, at your advertising representative's special request.

Q: Do you have a
• year 2000 calendar
for the Flyer?

Event Marketing

Whatever your marketing goals are, The Miami Herald and El Nuevo Herald provide targeted, cost-effective advertising and event marketing programs to help you reach new customers — and enhance your image. Herald special sections published in conjunction with many of these events offer unique and valuable opportunities for local, national and international exposure.

MIAMI INTERNATIONAL BOAT SHOW (February)

Greater Miami hosts the nation's largest consumer boat show, attracting 180,000 attendees from the U.S. and around the world. Sponsorship packages include exhibit space and signage, special section ads in The Miami Herald and El Nuevo Herald, and advertorial pages.

COPA LATINA (February)

South Florida's only adult amateur soccer tournament, Copa Latina is one of the area's most popular sporting events, drawing thousands of soccer fans during this month-long tournament. Copa Latina is a rare opportunity for Hispanic sports marketing in South Florida.

FIESTA TROPICALE (February)

Mardi Gras — South Florida-style! Fiesta Tropicale features an elaborate Mardi Gras Parade, a series of masquerade balls and a New Orleans-style music and food festival in trendy downtown Hollywood. Select advertiser packages, including title sponsorship and on-site presence, are available.

BABY FAIRE (February)

Baby Faire showcases products, services, entertainment and information for prospective parents and young families. The exposition is a festive — and interactive — environment for retailers, manufacturers and service providers to market directly to their customers.

HOME SHOW (February & September)

The Miami International Home Shows are the largest consumer home shows in the nation. Held each year in Coconut Grove and Miami Beach, they offer unique opportunities to showcase the latest in home products and services to thousands of qualified prospects.

MAKING MONEY SEMINAR (March)

Making Money is a Personal Finance and Investment seminar offering investors the opportunity to interact with — and learn from — leading financial experts. It also provides an important setting for financial service companies to connect with qualified prospects among the growing personal investment market.

CALLE OCHO (March)

Calle Ocho is the largest Latin party in the country, fast becoming as famous as Rio's Carnival and as free-spirited as New Orleans' Mardi Gras. This annual festival is one of the best places to market products and services to Miami's Hispanic community.

THE FORT LAUDERDALE AIR & SEA SHOW (May)

One of the largest annual spectator events in the world, with over 2 million people attending, this two-day beachfront event is televised worldwide. A magnificent salute to the American military, this high-profile event offers tremendous marketing opportunities to local and national advertisers. The Herald is a major sponsor and marketing partner for the event.

ATHLETIC AWARDS (June)

The Herald has presented the Miami-Dade and the Broward Athletic Awards since 1964. Open to public and private high school students, these two honors programs receive extensive editorial coverage.

OP SAIL 2000 (June-July)

Op Sail 2000 will be one of the largest Millennium spectator events in the United States. Over two dozen tall ships from 25 nations will visit seven American port cities from June through July, with Miami as their first stop. Over half a million people are expected to attend the 5-day festival at the Port of Miami and Bayfront Park. The Miami Herald is a major sponsor and marketing partner of this historic event.

THE HISPANIC BUSINESS SEMINAR (September)

The Hispanic Market Seminar is an educational seminar designed to provide South Florida businesses with key demographic information and marketing strategies for the Hispanic market. Featuring prominent speakers nationally recognized for their Hispanic marketing expertise, the seminar covers both the United States Hispanic and Latin American markets.

AMERICAS CONFERENCE (September)

The Miami Herald's Americas Conference is a forum for international leaders. Prominent executives, academics, financiers and government officials from all over the hemisphere attend this prestigious two-day conference. It is a unique opportunity to listen, learn and interact with the men and women who shape the future of our region.

HISPANIC HERITAGE (October)

One of the most popular events in Miami, Hispanic Heritage highlights accomplishments and contributions of the Latin community in South Florida. This month-long festival is a special marketing opportunity for Miami-area businesses.

HOTWHEELS.COM 300 AND PENNZOIL 400 (November)

NASCAR brings its two highest levels of racing to the Miami-Homestead Motorsports Complex. Personalities such as Jeff Gordon, Rusty Wallace, Dale Earnhart and Dale Jarrett come to town for two days of rubber-burning action, drama and speed. Numerous marketing opportunities are available, including product sampling, gift bags, in-paper and program advertising and signage.

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

Main Office(305) 376-2820
 South, Southwest671-4300
 North, Northwest, Miami Beach & South Beach653-2438

Broward Retail Advertising(954) 985-4595

Palm Beach Retail Advertising(561) 848-3341

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications".

All rates current at time of publication.

For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>.

2000 The Miami Herald/El Nuevo Herald

Parade Plus Retail Rates

Parade Plus Rates

Contract Levels	6x	13x	26x
Full Page	\$4,700	\$4,500	\$4,300
1/2 Page Vertical	2,400	2,300	2,200
1/2 Page Horizontal	2,400	2,300	2,200
1/4 Page	1,200	1,175	1,150

All rates include color charges per page.

Multi-page Rates

4 to 7 pages in one publication 5% discount per page
8 or more pages in one publication 10% discount per page



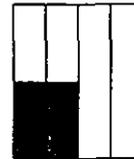
Full Page
4 Col. x 10-1/2"
9-1/2" x 10-1/2"



1/2 Page vertical
2 Col. x 10-1/2"
4-7/8" x 10-1/2"



1/2 Page horizontal
4 Col. x 5-1/8"
9-1/2" x 5-1/8"



1/4 Page vertical
2 Col. x 5-1/8"
4-7/8" x 5-1/8"

Digital File Specifications

Disk Type: 3 1/2" floppy, 100MB Zip, 1 Gig Jaz.

Ad Format: Ads are preferred in the PDF file format. If ads can't be sent as PDFs, please use the following formats. Ads must be received in Macintosh format only. If you are using an IBM/PC, the file must be converted to PDF format or a PostScript format with fonts embedded.

Fonts: Fonts other than those in the Adobe library will not be accepted unless they are embedded in an Acrobat PDF or PostScript file. They may also be outlines in an illustration application. Do not use True Type fonts. The outcome is inconsistent on PostScript imagesetters. All fonts must be included on the disk, please include both screen and printer fonts. Please place fonts in a separate folder on the disk. If a disk ad comes in on its final deadline and some fonts are missing or uses fonts other than those in the Adobe library, we reserve the right to substitute with a similar font.

Accepted Ad Building Programs: Multi-Ad Creator Version 4.0.2; Quark Xpress Version 4.01; Illustrator 8.0; Freehand 8.0; Photoshop 5.0; Pagemaker 6.5; Acrobat 3.0.1

Art Files: All art files must be TIFF or EPS format and included on the disk. Color Photos and ads must be in CMYK.

Special Instructions: Hardcopy must accompany the ad and be clearly keyed to match digital file.

Important: The Herald Ad Imaging Department cannot guarantee an ad will run or run correctly if disks are submitted past ad deadline or not following the listed specifications.

Proofs

- PARADE - 7 press proofs or 7 matchprints or 7 cromalins or 7 veloxes (B & W)
- If color guides are not correct for size and/or type, 2 blue lines or veloxes must be included with correct size and/or type.
- Iris, Rainbow and Kodak Approval Proofs are acceptable.

Sizes

Please call for correct sizes and dimensions.

General

Colors: Gravure standard colors are to match SWOP colors.

Printing Tones: The smallest dot which can produce a controlled printed density is 5%. The maximum total dot percentage in any area of 4/C is 320%. Only one color may print a solid 100%.

Type: Text should not be less than 6pt. boldface. Lightweight, fine serif type should be avoided. Surprinted or reverse rule lines should be at least 1pt.

UPC Symbols: For an acceptable scan rate, UPC symbols must be of a nominal size 1.469" x 1.02".

Film Specifications

For best quality reproduction, digital files are recommended for Parade.

Four Color Film Specs

- One (1) set of 133 line screen or finer, right reading, emulsion down (RRED) film negatives.
- Reverse type must be supplied or separate burner. Do not drop reverse type out of other colors. (Burners should be clear film with black type)
- Black type must be supplied as a separate negative overlay with all elements correctly sized and positioned. (Do not combine black type with black tone)
- Include image, register marks, and crop marks within 16" in height.

Black & White Film Specs

- Two (2) 133 line screen or finer, right reading emulsion down (RRED) film negatives (one for tone, one for text).
- Line work and halftone elements (CT) should be supplied on separate negatives with proper size and positioning of all elements.
- Ad must be supplied at 100% with no more than 0.4 base fog.

Proofs

- PARADE - 7 press proofs or 7 matchprints or 7 cromalins or 7 veloxes (B & W)
- If color guides are not correct for size and/or type, 2 blue lines or veloxes must be included with correct size and/or type.

Sizes

Please call for correct sizes and dimensions.

General

Colors: Gravure standard colors are to match SWOP colors.

Printing Tones: The smallest dot which can produce a controlled printed density is 5%. The maximum total dot percentage in any area of 4/C is 320%. Only one color may print a solid 100%.

Type: Text should not be less than 6pt. boldface. Lightweight, fine serif type should be avoided. Surprinted or reverse rule lines should be at least 1pt.

UPC Symbols: For an acceptable scan rate, UPC symbols must be of a nominal size 1.469" x 1.02".

Advertisers will be billed at the earned rate for advertising purchased and published beginning the month following the date on which the advertiser satisfies the lineage or frequency level required for that rate during the contract term. No advertiser will receive an automatic rebate on past advertising purchases solely by qualifying for a lower earned rate during the contract term.

Deadlines

Ad space deadline: 45 days prior
Material deadline: 37 days prior

Verification of space available will be given 40 days prior to date of publication.

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

Main Office.....(305) 376-2820
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For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications".
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For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>.

2000 The Miami Herald/El Nuevo Herald

1/1/00
R14

INTERNET SOLUTIONS

The Internet Solutions team works with you to develop a cost-effective, comprehensive online advertising strategy. Put the resources of this veteran technical and professional staff to work conceiving, creating and maintaining your presence on the web. E-commerce, database integration, corporate identity — whatever your goals are for your business or organization, Internet Solutions offers full-service internet development and hosting from single page packages to complete web sites.



**THE MIAMI HERALD
INTERNET EDITION &
EL NUEVO HERALD DIGITAL**
<http://www.herald.com>
<http://www.elherald.com>



Both of these sites offer considerable content from their print counterparts. The Miami Herald Internet Edition attracts millions of viewers each month. El Nuevo Herald Digital is one of the country's first, best and most comprehensive Spanish-language news sites. Together, these sites provide advertisers with an easy, affordable means to reach affluent, educated customers through the world's fastest growing marketing medium. On-site links, banners, promotions and sponsorships are available. Call your Herald representative for more information.

<http://www.miami.com>

Miami.com is a portal (starting point) for a variety of local services including news, shopping, employment, entertainment, dining, real estate, automotive, education and more. For advertisers, Miami.com offers a broad-range of targeting options — from content and category specific offerings to geographic opportunities — with text, banners, buttons, links, sponsorships and non-banner promotions. Miami.com is a part of Real Cities, a national network of local sites. For more information about Miami.com and how to take advantage of online advertising opportunities, contact your Herald representative or call 305-376-5040 (in Broward call 764-7026, ext. 5040).



<http://www.broward.com>

Similar to Miami.com, Broward.com is a hub for news, shopping, employment, entertainment, dining, real estate, automotive, education and more. For advertisers, Broward.com offers a broad-range of targeting options from content and category specific offerings to geographic opportunities in the form of banners, buttons, text, links, sponsorships and non-banner promotions. Broward.com is a part of Real Cities, a national network of local sites. For more information about Broward.com how to take advantage of online advertising opportunities, call your Herald representative or 305-376-5040 (in Broward call 764-7026, ext. 5040).



ONLINE MAXCLASSIFIEDS

<http://www.herald.com/class>

In-column classified ads — as well as recruitment and employment display ads — published in The Miami Herald and El Nuevo Herald are eligible for pick-up in the Digital Editions for a nominal charge.

<http://herald.cars.com>

Cars.com is a total online automotive evaluation and purchasing service and the gateway to the largest new and used car inventory in South Florida. The site is targeted to consumers interested in pre-purchase research on new and used vehicles as well as web-surfers who want to keep up with the latest automotive news.



Herald Online Services

HERALDHOMEHUNTER.NET

<http://www.miami.com>, click on
"Find a home"



Thousands of South Florida real estate listings are now online at Herald HomeHunter.Net. The site attracts homebuyers and sellers by including photographs of available properties, interactive locator maps, links to REALTOR® pages highlighting local real estate professionals and links to home pages of real estate organizations and companies.

<http://www.newhomenetwork.com/herald/>

NewHomeNetwork.com is a leading online marketplace for builders and buyers of newly constructed homes.



Affiliated with over 140 newspapers in major metropolitan areas, NewHomeNetwork.com features complete and detailed home listings, floor plans, maps, school and community information, mortgage and affordability calculators, photos, and the ability to search by price, location, square footage or home size. Its exclusive "My NewHomeNetwork.com" feature allows homebuyers to save their search results for later viewing and sharing with friends and family.

<http://www.herald.com/realestate/>
click on "Apartments.com"

Apartments.com is a complete South Florida apartment-hunting tool. Users can search online according to custom features, location, price range and more.



MIAMI HERALD CAREERPATH

<http://careerpath.herald.com>

Miami Herald CareerPath is a full-service recruitment and employment site for South Florida employers and jobseekers with searchable classified job listings, virtual job fairs, interview tips and more. It also features links to national sites and newspaper employment listings. Corporate sponsorships are available on Miami Herald CareerPath for recruitment advertisers, employment services and other career-related organizations and institutions.



<http://www.careerpath.com>

CareerPath.com is an online service featuring new job listings posted daily from The Herald and nearly 90 other national and international newspapers. Company profiles and a variety of services for employers are also offered on CareerPath.com.



<http://www.justgo.com/southflorida/>

Just Go South Florida is an online entertainment guide to movies, music, dining, special events and performance listings from the Keys to Palm Beach. Users can search by category, location, budget, date and more.



YELLOWPAGES@HERALD.COM

<http://www.miami.com>,
click on "Yellow Pages"

Yellowpages@herald.com is an online directory of more than 150,000 South Florida businesses. Consumers can search by business category or business names and receive point-to-point driving directions.



Advertisers will be billed at the earned rate for advertising purchased and published beginning the month following the date on which the advertiser satisfies the lineage or frequency level required for that rate during the contract term. No advertiser will receive an automatic rebate on past advertising purchases solely by qualifying for a lower earned rate during the contract term.

2000The Miami Herald/El Nuevo Herald

Retail Food & Fitness Rates

Food & Fitness advertisers are defined as:

- Nutritional centers and nutritionists – local franchises, excludes corporate ads.
- Weight loss/diet centers such as Jenny Craig, Weight Watchers, excludes corporate ads.
- Gyms, health clubs, sports clubs and associations.
- Health professional, excludes hospitals.
- Healthy living recipes and seminars.
- Local retail vitamin chains such as GNC, excludes corporate ads.
- Health and fitness seminars, classes such as cooking and jazzercise.
- Franchise dining including restaurants, fast food/quick service, retail convenience stores. This definition excludes grocery stores.
- Specialty food stores and convenience stores.
- Liquor

Full Run Rates

THE MIAMI HERALD	Daily*	Sunday*
	\$67.00 per inch	\$86.00 per inch
	\$8,064.00 full page	\$10,332.00 full page

*Full run color billed at 50% off standard color rates.

	Daily
BUSINESS MONDAY	\$74.40 per inch
WEEKEND	\$74.40 per inch

HOLIDAY RATES AND CIRCULATION

We provide Sunday circulation of The Miami Herald to all subscribers on five holidays: New Year's Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. These holidays are charged at your Sunday contract rate and will include Sunday pricing of color and any other applicable premiums. Please note: Business Monday ads running on a holiday such as Labor Day will price based on a combined total of the Sunday rate and the Sunday page premium.

EL NUEVO HERALD	Daily	Sunday
	\$27.85 per inch	\$29.40 per inch
	\$3,217.00 full page	\$3,710.00 full page

El Nuevo Herald rates offer 15% commission to recognized advertising agencies.

	Daily	Sunday
DOMINGO SOCIAL(TAB)	N/A	\$42.00 per inch
		\$2207.00 full page

VIERNES(TAB)	\$35.25 per inch	N/A
	\$20.20 full page	

EL NUEVO HERALD REPEAT RATE

Any advertiser in El Nuevo Herald may run the same ad, within 7 days and unchanged, for 30% off the regular contract rate. You may then run a third or more ads within 7 days and unchanged at 50% off the regular rate. The ads may start on any day, but the highest rate ad will be counted as the full rate ad (i.e., run Thursday, Saturday and Sunday; and Sunday will count as the full rate ad, the other two at discount). Not available in *Viernes* or *Domingo Social*.

Broward Rates

***DAILY BROWARD FOOD & FITNESS**

*Monday, Tuesday or Wednesday in Broward Main or Thursday Broward Living.

Frequency Contract	Open	6X	13X	26X	52X
DOUBLE TRUCK	\$2,326	\$2,278	\$2,210	\$2,092	\$1,821
Full Page	1,073	1,050	1,020	965	841
1/2 Page	552	541	524	493	465
1/4 Page	282	277	268	252	237

COMBO RATES

Frequency Contract	Open	6X	13X	26X	52X
DOUBLE TRUCK	\$4,135	\$4,051	\$3,929	\$3,721	\$3,515
Full Page	1,908	1,869	1,813	1,717	1,622
1/2 Page	963	948	934	886	836
1/4 Page	502	491	477	427	392

Combo includes one ad in Sunday Broward Tropical Life. Second ad choice of Broward Main Monday or Tuesday or Wednesday or Thursday Broward Living.

Sunday Broward Food & Fitness Tropical Life Rates

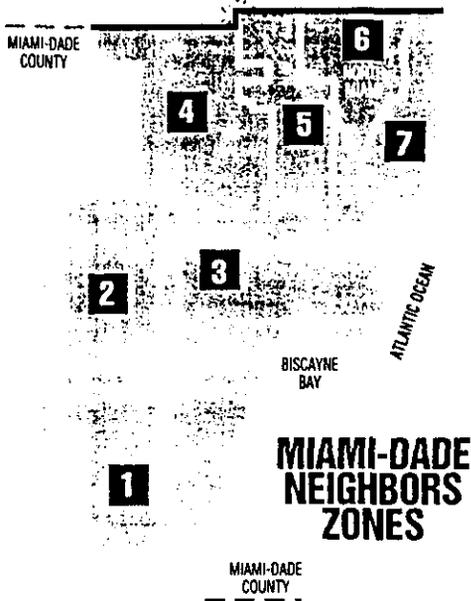
	Open	6X	13X	26X	52X
DOUBLE TRUCK	\$2,698	\$2,642	\$2,564	\$2,427	\$2,112
Full Page	1,245	1,218	1,183	1,119	976
1/2 Page	640	628	608	572	539
1/4 Page	327	321	311	292	275

Advertisers will be billed at the earned rate for advertising purchased and published beginning the month following the date on which the advertiser satisfies the lineage or frequency level required for that rate during the contract term. No advertiser will receive an automatic rebate on past advertising purchases solely by qualifying for a lower earned rate during the contract term.

Miami-Dade Neighbors

Zoned Neighbors sections offer advertisers a special opportunity to target their advertising to specific areas of Miami-Dade Herald circulation. These neighborhood tabloids are inserted in The Herald every Thursday and Sunday. Neighbors completely cover Miami-Dade County (the Miami MSA) with seven editions.

The Miami-Dade Neighbors sections are tabloid-size products and are priced in column inch rates.



Retail Food & Fitness advertisers may qualify for the Neighbors 26x frequency rate. Please ask your Herald advertising representative for more information on frequency discounts and color rates.

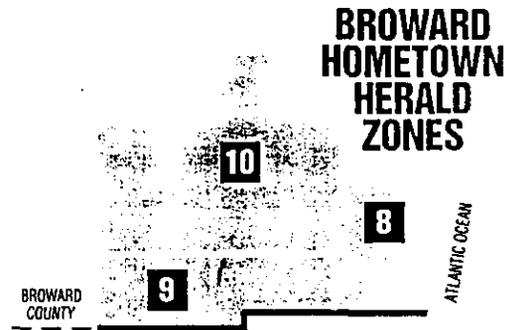
Broward Zoned Food & Fitness Retail Rates

Hometown Herald

Hometown Herald offers advertisers a special opportunity to target their advertising to specific areas of Broward Herald circulation. These zoned sections are inserted in The Herald every Thursday and Sunday.

All Broward Hometown Herald sections are **standard size** and are priced based on modular sizes.

Hometown Herald contracts are frequency contracts that apply to any zone, any size. An ad on frequency contract counts as an insertion date towards the contract fulfillment. Additional zones on the same day do not count towards frequency fulfillment however.



Retail Food & Fitness advertisers can also advertise in Broward Hometown products at current rates. Please ask your Herald advertising representative for more information and color rates.

Contact Information

For more information on these and other Herald products, contact your Herald representative or call our Retail Advertising Offices:

- Main Office.....(305) 376-2820
- South, Southwest.....671-4300
- North, Northwest, Miami Beach & South Beach.....653-2438
- Broward Retail Advertising.....(954) 985-4595
- Palm Beach Retail Advertising.....(561) 848-3341

For mechanical specifications and deadlines, please see section entitled "Advertising Guidelines and Specifications".
 All rates current at time of publication.
 For updated rates, please contact your Herald representative or view online at <http://www.herald.com/extranet/marketing>

1 BY MS. HANBERY:

2 Q Mr. Wilson, I'm going to ask you some specifics
3 now about testimony you gave about the Miami market and
4 specifically the Flyer.

5 I would ask you to turn to page 23 of your
6 testimony, and hopefully you have the same version I have.

7 A We'll be close.

8 Q And I'll ask you to look at line 4 where I believe
9 you are quoting Mr. Baro as saying -- have you found that,
10 by the way?

11 A Yes, ma'am.

12 Q Okay. Because our distribution costs are based on
13 postal weights and rates, we cannot offer special deal --
14 (sic) -- bad typing -- to our biggest customers. This is
15 nonsense.

16 That was your testimony; correct?

17 A Yes, ma'am.

18 Q Now, I will apologize for dropping the "s" out of
19 "deals" in working with Mr. Baro on his testimony, but I
20 will ask you, in doing this quote, did you not also omit
21 something Mr. Baro said in that sentence about not being
22 able to cut prices?

23 A You know, I don't recall. I read his testimony
24 obviously because I wrote this, but I don't recall the
25 context that you're putting it into.

1 MS. HANBERY: If I may approach?

2 THE WITNESS: Is it the highlighted piece that you
3 gave me?

4 BY MS. HANBERY:

5 Q Wasn't Mr. Baro's full sentence, "Because our
6 distribution costs are based on Postal rates and weight, we
7 cannot cut prices and offer special deals," is that the full
8 quote?

9 A Yes, ma'am, it is.

10 Q Later on on this same page, you make a reference
11 to the Flyer's distribution of a four page tabloid insert
12 for a South Florida food store. I think that reference is
13 on lines 12 and 13, have you found that?

14 A Yes, ma'am

15 Q Is there a specific story you are referring to?

16 A I am referring to a store called Cedano's that
17 has, I believe, 14 stores in the South Florida marketplace,
18 12 of which are in Dade County and South Broward County.

19 Q And this was the same store that was subject to
20 quite a few interrogatories from NAA to Mr. Baro? Are you
21 familiar with those?

22 A I do remember the interrogatories, and I believe
23 it was.

24 Q Did you assist your counsel or NAA in preparing
25 those interrogatories?

1 A I read them and offered feedback on them.

2 Q Now, on page 23, lines 13 and 14, you state that
3 "The Flyer has agreed to deliver this tabloid," quote, "at a
4 rate of under 2 cents per insert when the actual Postal
5 delivery rate is 11.3 cents per insert or more." Do you
6 agree that a four page tabloid like the Flyer insert for
7 this grocer would typically weigh approximately .2 to .3
8 ounces?

9 A Right in the .3 range.

10 Q Okay. And when you say the delivery rate is 11.3
11 cents per insert, weren't you really referring to the full
12 ECR saturation rate for a piece weighing up to approximately
13 3.3 ounces or less?

14 A Yes, ma'am.

15 Q Okay. And isn't the lowest delivery rate you can
16 get for a flat-shaped piece if you bring it to the DDU
17 actually 11.4 cents?

18 A I believe it is.

19 Q Now, assuming for my next question, which is a
20 hypothetical, that you have a free paper, where most or all
21 of its distribution is at or over the breakpoint, would you
22 agree that the lowest price that mailed free paper could
23 charge without selling below its actual costs for the
24 package is the applicable pound rate for the piece, let's
25 say it weighs .3 ounces, times the pound rate, which is at

1 the lowest rate possible for DDU entry, would be 53.7,
2 which, doing the math, would be 53.7 divided by 16, which
3 gives us 3.356 an ounce, do you agree with that process so
4 far for a piece that is at the pound -- that is already at
5 the breakpoint?

6 A Your math sounds right to me on what you are
7 hypothesizing.

8 Q So in this hypothesis, if the piece is at the
9 breakpoint already, your postage would be at least 1 cent
10 per insert?

11 A That's correct.

12 Q Now, assuming your sources are right, and this
13 South Florida grocery store is getting a price of under 2
14 cents a piece, would the advertiser need to pay, in addition
15 to postage, something for inserting it?

16 A The price that I quoted in here included
17 insertion, mechanically inserting it into the paper.

18 Q Excuse me. I am just talking about now the
19 advertiser's costs. We have agreed that the postage cost in
20 this hypothetical is 1 cent, correct? Okay. Would that
21 mailer also have some costs for putting the insert in the
22 paper?

23 A Now, you have changed it from advertiser to
24 mailer, and if you change it to mailer cost, yes, that is
25 correct.

1 Q Yes, my mistake. Thank you for correcting me.
2 Would the mailer also have a cost for -- incremental
3 transportation cost for getting that whole piece to the DDU?

4 A Yes.

5 Q Would they also probably pay somebody something
6 for bringing that advertiser in?

7 A Correct.

8 Q Okay. So, assuming that this insert is being
9 priced at under 2 cents, wouldn't it make it rather
10 difficult for that mailer to cut its price to that
11 advertiser much more?

12 A The answer is it is a good hypothetical, but it
13 isn't quite the way that it works in South Florida and with
14 this particular advertiser.

15 Q I am asking you to address the hypothetical, sir.

16 A I'm sorry. You will have to reask me again then.

17 Q Okay. In this hypothetical, where you have a
18 shopper or mailer that is at the breakpoint already, you
19 have got postage cost of 1 cent and some other additional
20 costs, and the advertiser is already getting a rate under 2
21 cents. Wouldn't it be difficult in this hypothetical to cut
22 that advertiser's price any further?

23 A The answer is yes, it would be difficult to.

24 Q Now, isn't it true that the Miami Herald has
25 recently made a sales proposal to an existing grocer

1 customer of the Flyer that is currently doing a substantial
2 weekly circulation with the Flyer of a four page tabloid
3 piece weighing approximately 3 ounces -- .3 ounces, where
4 the Herald would offer both printing and distribution at a
5 rate substantially below the printing and distribution that
6 South Florida grocers pay now?

7 A It has been four months since I was involved with
8 this particular case that you are talking about, so I can't
9 tell you with certainty that that is a proposal that has
10 been made.

11 Q You can't say it hasn't been made either? You
12 don't -- is the answer you don't know?

13 A I am much more comfortable saying I don't know.

14 Q Looking further at your testimony on page 23, I am
15 going to begin with line 17 and I am going to read a portion
16 of it. "The answer is that large advertisers provide the
17 Flyer with a reason to go to each household every week, and
18 the Flyer provides the large advertiser with a very low rate
19 to get into this business. They use that availability to go
20 forth and sell other advertisers into the package to be
21 delivered.

22 "For years the key to success in both the TMC
23 business and the shared mail business has been to find a
24 large paying advertiser to be your anchor and contract with
25 you to deliver its insert to every household in the zip code

1 area every day of the week. When one finds an advertiser of
2 this type, they price delivery very competitively because
3 they know that they will be able to sell other advertising
4 into the same areas the large advertiser wants inserts
5 delivered into."

6 Now, did I correctly quote your testimony?

7 A That's correct.

8 Q Now, in this section you assert that this is what
9 the Flyer does, is that correct?

10 A Yes, ma'am.

11 Q Now, isn't it true that the Flyer and, indeed,
12 other shoppers differ from other shared mail programs and
13 newspaper TMCs because the paper itself is the anchor that
14 goes out every week to the geographic footprint of the
15 market?

16 A The jacket, which consists of advertising printed
17 on it, is the vehicle that goes out. I hesitate to call it
18 a paper.

19 Q And this is a paper that you don't receive but say
20 you are familiar with?

21 A I don't receive it because they don't deliver it
22 in the area that I am in, and I am familiar with it.

23 MS. HANBERY: And you are referring to it as a
24 jacket.

25 If I may approach.

1 BY MS. HANBERY:

2 Q I am showing you a copy of the Flyer. Is that
3 consistent with what you have seen before?

4 A Yes, ma'am, it is.

5 Q Okay. And is it correct that that is a
6 publication of 44 pages?

7 A Yes, ma'am.

8 Q Okay. So when you refer to it as a jacket, is
9 that substantially different from, say, a Herald Values type
10 piece where the jacket is four pages?

11 A It is different from the Herald Values piece, that
12 is true.

13 Q And is it correct that the Herald Values jacket is
14 a four page piece?

15 A It is a four page tab, you're right.

16 Q Now, with the Flyer, isn't it correct that every
17 week, the Flyer goes to 97 zones with a different version of
18 the paper, like the paper you see in front of you?

19 A That's what they state on their rate card.

20 Q Do you have any reason to dispute that or disagree
21 with that?

22 A No, ma'am.

23 Q And in the case of the Flyer, when you look at the
24 paper itself, aren't the pages of the publication, the one
25 in front of you has 44 pages, predominantly ads from

1 consumers and small businesses?

2 A Yes, they are.

3 Q Now, the section of testimony that I just read, is
4 that a true and accurate description of what Herald Values
5 does with its TMC program?

6 A I am not sure I understand your question.

7 Q I read a portion of your testimony beginning at
8 the bottom of page 23 up to the top of 24 where you say this
9 is what the Flyer does and then you on line 21 talk about
10 success of the TMC business.

11 Is that portion of your testimony an accurate
12 description of the Herald Values TMC business?

13 A It is an accurate description of the Herald
14 Values' goals with their TMC program. They don't presently
15 have an advertiser like that.

16 Q Okay. Now with the Herald Values jacket or wrap,
17 that is a four page piece. I take it it is one of your
18 corporate goals to try to get a large advertiser to commit
19 every week to one of each of those four pages to provide
20 this anchor for you to sell into, is that correct?

21 A It is what the Miami Herald company would like to
22 have happen.

23 Q And is that a fair statement of what it is trying
24 to achieve with its program?

25 A We'd certainly like to have an advertiser all 52

1 weeks on our front page but the fact is that we don't. We
2 tend to rotate the page among other advertisers and we are
3 always trying to sell to finish off the section each week.

4 Q I am going to ask you to look at page 24, line 6,
5 where you testify, "Many jacketed saturation mailers
6 estimate the trend line of the weight of their jackets and
7 offer four weeks' free delivery in selected zip code deals
8 to advertisers to lure them out of their competitors'
9 package."

10 Is that something the Miami Herald does with its
11 Herald Values?

12 A No, ma'am, we don't.

13 Q So your competitors do it, but you do not?

14 A We haven't been able to do it. We are not below
15 the break point in a lot of those cases.

16 Q Okay, so in your case the example we gave before
17 of what happens to postage at 3.3 ounces, because your piece
18 is heavier than that, makes it unattractive for you to do
19 these kinds of deals?

20 A That is correct.

21 Q What percentage, if any, of your packages are
22 above the break point?

23 A In a typical year maybe 10 or 15 percent.

24 Q Are above the break point?

25 A Are above the break point.

1 Q Okay. Maybe I misunderstood what you just said.
2 Does that mean that 90 or 85 percent are below the break
3 point?

4 A In a typical year. Remember that you have your
5 seasonal highs and your seasonal lows. We are in our lows
6 right now. When you get into the fourth quarter of the year
7 and you have got your seasonal highs coming in, it probably
8 rises to 25 or 30 percent that are above the break point.

9 Q Well, now I guess I am confused about your last
10 answer where you said that you don't do what you describe
11 other mailers as doing because you are usually above the
12 break point.

13 What am I missing with this if you are below the
14 break point 80 percent of the time?

15 A The -- we have not taken the opportunity, I guess,
16 to go after that business. We tend to be close to the break
17 point. We just haven't taken the opportunity to offer those
18 deals.

19 Q Okay. Isn't it true that the Miami Herald through
20 its Herald Values program recently made a proposal to an
21 existing tire store customer of the Flyer that has been
22 doing an eight-page coupon book with the Flyer where the
23 Flyer has done both the printing and distribution and the
24 Herald offered this customer for a limited time of
25 approximately two months a price for both printing and

1 distributing over 600,000 pieces that was roughly half the
2 price that's currently paying the Flyer?

3 A Again it's been four months since I have been
4 involved in sales and marketing in that area. It's not a
5 question that I have an answer to.

6 Q So when you gave your information on pricing and
7 the market, was this basically all what other people told
8 you, not your own personal information?

9 A This is information that was generated up until
10 four months ago.

11 Q And when you say it was generated, was it your
12 personal information or based on what other people told you?

13 A It was information worked out based upon my sales
14 team and the work they were doing in the marketplace.

15 Q Now in the portion of the testimony I quoted
16 earlier, where you were quoting Mr. Baro, and you said his
17 assertion was nonsense, wasn't he talking about a customer
18 in that section of his testimony called Martino Tire?

19 Do you recall that portion of his testimony?

20 A I do recall that portion of his testimony.

21 Q And isn't it true that in 1999 Martino's Tires had
22 been doing a four page insert with the Flyer and that Herald
23 Values was able to persuade Martino's Tires to switch to the
24 jacket of your wrap for a price for both color and
25 distribution of approximately \$8 a thousand?

1 A An inside jacket in our Herald Values could be
2 sold for \$8 a thousand, that is correct. That is an ad on
3 the jacket, not an insert.

4 Q That is what I am referring to is an ad printed by
5 you on the jacket, and wasn't Martino Tires for awhile given
6 the outside position on that jacket?

7 A As I said, it depends on how many times we can
8 sell it in a year. We tend to get it sold every time, but
9 it is a higher rate, it's a higher rate advertising.

10 Q Okay.

11 A We sell more for our front page than our inside
12 pages.

13 Q So let me back up. Was Martino Tires on the
14 outside of the jacket for awhile?

15 A I am certain I saw them there at times.

16 Q And do you know if they were given a price for \$8
17 on that, or do you not know?

18 A I do not know.

19 Q Okay. Isn't it true that Firestone was an
20 existing customer of the Flyer and that Herald Values was
21 able to offer them a better price, then they switched to the
22 Herald Values program?

23 A Would you repeat the question, please?

24 Q Isn't it true that Firestone had been an existing
25 customer of the Flyer and that Herald Values was able to

1 offer them a better price and they switched to the Herald
2 Values program?

3 A I don't know that that is true either.

4 Q Isn't it true that another single sheet advertiser
5 called Anything Wireless was a former Flyer customer but
6 that is now currently a Herald Values program customer?

7 A Again I don't know. I haven't seen that.

8 Q Would you confirm that two of the larger piece,
9 heavier weight advertisers that last year were with the
10 Flyer, Toys-R-Us and the Miami-Dade Community College, have
11 switched from having their piece delivered by the Flyer and
12 are currently customers of the Miami Herald?

13 A I can confirm that they are presently customers of
14 the Miami Herald. Toys-R-Us is a national chain that makes
15 their buys, tends to make their buys on a national basis, so
16 I am not sure what the impact is, and I know that Miami-Dade
17 is a Herald Values and Miami Herald customer and has been
18 since, oh, I think 1998.

19 I joined them in '99 and they were there at that
20 time so I don't know about the movement from the Flyer.

21 Q And can you confirm that Anything Wireless is
22 presently a Herald Values customer?

23 A I can't. I haven't seen it lately.

24 Q Can you confirm that Firestone is a Herald Values
25 customer?

1 A I can confirm that some time around the early part
2 of this year Firestone and Martino Tires combined in a joint
3 marketing effort to create a single advertising piece and I
4 know they made a different decision on where they were going
5 to put that advertising piece, but where they were two
6 separate companies a year ago, they are now advertising on
7 the same, on the same insert.

8 Q I believe the question I asked related to
9 Firestone. Can you confirm if Firestone is a Herald Values
10 customer?

11 A I believe they are.

12 Q Okay. If you could look at the bottom of page 24,
13 line 23, you state, "In comparing the Miami Herald's rates
14 to those of your rivals" -- and have you found that, by the
15 way?

16 A Yes, I have it.

17 Q Quote, "An advertiser with a 12-page tabloid
18 insert wishing saturation of the full market on a weekly
19 basis is getting their product delivered for around 3 cents
20 per household." Is that your testimony?

21 A Yes, ma'am.

22 Q And is this the price that Herald Values is giving
23 such a customer or is that a price that could be available
24 through Herald Values if the customer committed to a big
25 enough distribution?

1 A I am sure that that's the range that we would be
2 quoting the delivery at for the conditions that I stated in
3 here.

4 Q I got a copy of the August 13th Miami Herald
5 Sunday paper, and I pulled out some of your 12 page inserts,
6 and I weighed them, and I weighed the lightest insert I
7 could find of 12 pages from a Penney's ad was approximately
8 .75 ounces.

9 Does that seem like an approximate light weight 12
10 page insert?

11 A Yes, it does.

12 Q And it went all the way up to a high for K-Mart,
13 which was the larger size kind of tabloid piece of 1.3
14 ounces. Does that seem to be in the range?

15 A The benchmark that we tend to use is that 12
16 newsprint tabloid pages are about 1.1 ounce, so that sounds
17 like it is in the range.

18 Q Okay, so going back to our hypothetical before
19 where if you have a shopper or if you have a shared mailer
20 that is already at the break point, and they are going to do
21 a -- they are going to offer an advertiser as a price to do
22 a -- we will use your number -- a 1.1 ounce piece times the
23 incremental cost of the postage which at the current pound
24 rate is 3.35 ounces --

25 Would you agree that the number that we come out

1 with for postage costs alone there is 3.85 cents?

2 A For a one-ounce piece?

3 Q For 1.1 ounce.

4 A You know, I'm not sure about the math on there.

5 I'm not sure I can agree with that.

6 Q Okay, what problem do you have with the math? Is
7 1.1 times 3.35 -- do you get a different result?

8 A I didn't calculate it, that was why.

9 MR. BAKER: What is the witness being asked to
10 calculate?

11 MS. HANBERY: The witness testified that they use
12 as a benchmark that a 12-page piece weighs approximately 1.1
13 ounce. I'm asking him to compute the incremental postage
14 cost at the DDU rate for above the break point.

15 THE WITNESS: I realize what you're asking me to
16 do, and I would give you the 3.85 cents or \$38 a thousand,
17 if you will, that's there.

18 But I have to object on the grounds that if this
19 were a weekly, 52 week a year program, and we were above the
20 break point on it, we may compute it differently, as well as
21 the Flyer or Advo or somebody else may compute it
22 differently, and it's still in the range.

23 BY MS. HANBERY:

24 Q I'm just saying that you gave some testimony about
25 what people can get in the market, that if you were

1 competing with a shopper that was already close to the break
2 point for that type of piece that weighs 1.1 ounce, they
3 could not offer, no matter how much volume that advertiser
4 committed to, they could not offer a price of three cents
5 apiece with below-cost pricing; could they?

6 A Your statement is correct.

7 Q Thank you.

8 On page 9 of your testimony, lines 6 through 12,
9 you state you still have some alternate delivery in Miami,
10 and we talked about that earlier, about 150,000 homes.

11 A That's correct.

12 Q And you say that you target that primarily towards
13 an Hispanic audience; is that correct?

14 A Yes, ma'am.

15 Q Why do you target it towards Hispanics?

16 A There were two reasons why we stayed with the
17 alternate delivery system in the Hispanic portion of Miami
18 when we made the actual conversion from all alternate
19 delivery to mail delivery for the biggest portion of it:

20 The number one reason was that we had advertisers,
21 Sears Home Centers, where specifically the advertiser who
22 made a commitment to run every week in there with a fairly
23 heavyweight piece. I think it's anywhere from 36 to 48
24 pages.

25 And we had some other advertisers who wanted to

1 continue in that area. So we knew that we would end up with
2 pieces that would be very close to being above the Postal
3 costs of alternate delivery, our alternate delivery.

4 And we also knew that we could capitalize on the
5 Hispanic market from a product sampling perspective. We had
6 a lot of people there asking us about product sampling in
7 the Hispanic neighborhoods, and that's what kept us in
8 there.

9 Q Okay.

10 Was another factor at all that in some of the
11 Hispanic areas, the Miami Herald has its lowest penetration,
12 and it would be more cost effective to have an alternate
13 delivery network there?

14 A Not if we didn't have the advertising to go along
15 with it. A household is a household when you've got to
16 cover it.

17 Q I appreciate that, but with the portion of
18 advertising being neutral, was your penetration in the
19 Hispanic area one of the factors?

20 A It was not a factor.

21 Q Okay.

22 On page 9, line 6, you refer to 31 newspapers that
23 had non-subscriber delivery programs at one time. Would it
24 be fair to conclude from this portion of your testimony that
25 newspapers have developed these programs, be it alternate

1 delivery or TMC, to give advertisers a full saturation
2 coverage option?

3 A Yes, ma'am.

4 Q And would it also be fair to say that in your
5 choices of creating a non-subscriber program to distribute
6 by mail or some form of alternate delivery, that one of the
7 things you look at is your Postal costs in doing things by
8 mail?

9 A Yes, ma'am.

10 Q And if Postal rates were to increase, would you be
11 doing a cost/benefit evaluation of whether staying in the
12 mail or converting more or all of your circulation to
13 private carrier would be the best option for you?

14 A Since the Postal mail rates are our benchmark, I
15 guess the answer to that would be that we would evaluate it.

16 Q Okay.

17 And from your testimony, with the number of
18 newspapers that have switched to their TMC products to the
19 mail, I take it's a fair conclusion, since the advertisers
20 want it, that this is working for the newspapers and their
21 advertisers as a good way of meeting advertiser needs?

22 A I'm not sure I understand the question.

23 Q Okay, I'll try to rephrase it. In your testimony,
24 you suggest that all but three of the Knight Ridder 31
25 newspapers have switched their alternate delivery portion of

1 their TMC programs to mail.

2 Would it be fair to conclude that the Postal
3 Service is giving you and your advertisers a good choice
4 with their distribution services?

5 A For the total weight that we tend to have in our
6 packages on a weekly basis, that's true.

7 Q Okay.

8 Now, from a strictly public policy standpoint, if
9 one of the principal missions of the newspaper industry is
10 to gather news, rather than being in the distribution or
11 alternate delivery business, and one of the missions of the
12 Postal Service is to retain sufficient volume to offer
13 universal service six days a week, doesn't it make sense
14 that the rates for ECR flats and heavier pieces stay
15 attractive enough to retain the business of newspapers?

16 A I'm not sure of the question. They're attractive
17 enough now.

18 Q So your answer would be yes?

19 A I think it would.

20 Q To put it on the flipside, it wouldn't make much
21 sense for your own good and the Postal Service's own good to
22 raise its rates to a point where you go back to those
23 halcyon days of 1995 where 31 of your newspapers are running
24 alternate delivery companies and the Postal Service lost
25 volumes?

1 A That's a really strong hypothetical, but the
2 answer that I would give you is that that isn't the only
3 element that would be involved in making a decision like
4 that.

5 We also needed to take into account that when we
6 were running our alternate delivery program, we had a lot of
7 advertisers who had much more confidence in the mail as a
8 delivery function for our non-subscribers than
9 private-delivered.

10 Q Look at page 19, please, line 12.

11 [Pause.]

12 You make the statement that except to the degree
13 that a newspaper is running an alternate delivery company,
14 the Postal Service does not compete with newspapers.

15 Is Knight Ridder a Postal Service competitor?

16 A Knight Ridder is not a Postal Service competitor
17 with their newspapers or with their newspaper inserts.

18 Q Okay, so when you appear here as a newspaper
19 company for NAA, you are not saying that you are here as a
20 competitor?

21 A We are not here as a competitor to the Postal
22 Service.

23 Q Thank you.

24 Please look at page 17, line 5.

25 [Pause.]

1 You state that expense cutting is necessary to
2 maintain the profit margins that the market demands we
3 maintain. What are the profit margins that the market
4 demands you to maintain?

5 A According to Knight Ridder's annual report last
6 year, the profit margins were in the high teens, and our
7 investors buy stock in our company because of the profit
8 margins that we have and that's what they expect us to
9 maintain.

10 Q Can you give us a ball park number on that?

11 MR. BAKER: He just did, the witness just did.

12 THE WITNESS: It's 17, 18, 19, I believe that
13 someone just read 19.3 into the record or something.

14 BY MS. HANBERY:

15 Q So you are currently maintaining a profit margin
16 that you would say is adequate for market demands?

17 A Adequate for investor demands.

18 Q Please look at page 12, where you state on line 11
19 that life is very tough for alternate delivery companies
20 with only weekly delivery to sell into and razor-thin
21 margins. The loss of one insert from their shared delivery
22 jacket can make the difference between profit and loss in
23 any week, any given week.

24 Doesn't that statement apply with equal force to
25 any shared mail program or shopper program that only does

1 one weekly delivery that they have to sell into?

2 A I don't know that you can make the comparison. An
3 alternate delivery company tends to be a delivery company
4 who gains its revenue through the act of delivering a
5 product from a warehouse to a door. A shopper generates
6 revenue inside of a jacket, generates revenue from inserts,
7 generates revenue from the commercial printing of things.
8 The two are not comparable, in my mind.

9 Q Okay. And I would agree totally. That's why I
10 asked you earlier about the Flyer and it being a different
11 product than some of these TMC products.

12 If we were to just focus on the shared mail
13 product like a ADVO product in your market, you may see Mail
14 South, the type of program that does inserts into a jacket.
15 Would not that statement apply with equal force to those
16 types of shared mail products?

17 MR. BAKER: Would not which statement apply to
18 --which statement are you examining the witness on?

19 MS. HANBERY: The statement that I quoted from his
20 testimony on page 12, line 11.

21 THE WITNESS: The answer -- my answer is each
22 delivery -- each mailer or alternate delivery company has a
23 fixed -- almost fixed per-household delivery cost whether it
24 involves a mail portion, mail charge to them or an alternate
25 delivery portion, and each of those companies, either the

1 company that's running the alternate delivery operation and
2 selling into the jacket or a mailer, has to sell more
3 revenue into that jacket than they pay out on a weekly
4 basis.

5 So to the extent that they can't do that or are
6 very much on the cusp of not being there, yes, that would
7 work both ways.

8 MS. HANBERY: Thank you.

9 I have nothing further.

10 CHAIRMAN GLEIMAN: Mr. Todd?

11 MR. TODD: Commissioner, can we take a break?

12 CHAIRMAN GLEIMAN: Do you have cross examination
13 for the witness?

14 MR. TODD: I have some follow-up.

15 CHAIRMAN GLEIMAN: Okay. Let's take five.

16 MR. TODD: Take two if you want to.

17 CHAIRMAN GLEIMAN: Five.

18 [Recess.]

19 CHAIRMAN GLEIMAN: Mr. Todd, you said you had some
20 follow up.

21 CROSS EXAMINATION

22 BY MR. TODD:

23 Q Mr. Wilson, I'm David Todd. I'll be asking just a
24 few questions on behalf of the Mail Order Association of
25 America.

1 First of all, is someone dealing with your
2 newspaper able to buy for an inserted piece either newspaper
3 alone -- I assume the answer to that is yes --

4 A Yes, sir.

5 Q -- or TMC alone?

6 A No, sir.

7 Q So you can't go out and buy just the TMC product;
8 you've got to buy the newspaper.

9 A To the best of my knowledge, we have never sold a
10 customer a product to be inserted only into our
11 non-subscriber situation. We have had requests for it.
12 There are people in the country who come to us and they want
13 us to buy -- they want us to sell them distribution at a
14 remnant rate and they're willing to have us put their
15 product into our non-subscriber jacket when it's small at
16 some small rate. Our answer has been that we start the
17 process with our newspaper.

18 Q All right. Then suppose that I'm J.C. Penney and
19 I want to reach the Miami market and I have a choice of
20 using your product, which, I gather, to begin with, I first
21 have to have the newspaper, and then I can join the TMC
22 ~~afternoon~~ ^{delivery portion} top of it; is that correct?

23 A That's the way that we tend to sell it.

24 Q Right. You tend to sell it or only sell it?

25 A I wouldn't use the word only because I couldn't

1 tell you that it has never happened.

2 Q The that that's never happened is that you haven't
3 sold only the TMC product alone?

4 A That's correct.

5 Q You may have, but it's not a regular practice?

6 A It's not something that I can remember.

7 Q All right.

8 A And you're certainly right, sir, it's not a
9 regular practice.

10 Q All right. Thank you.

11 So again, back to the J.C. Penney situation, and I
12 want to -- I am in the Miami market, I want to reach my
13 customers, and I have a choice to choose some shared mail
14 program or someone else who is offering to, in fact,
15 delivery my insert, my retail flyer. So I would go to the
16 Miami Herald and they would offer me a program that consists
17 of newspaper delivery and TMC in combination.

18 A Yes, sir, that could happen.

19 Q And then wouldn't I go and compare what the
20 competition would do in terms of rate me for that same
21 product?

22 A Yes, sir.

23 Q Yes. But nonetheless, in your view, the newspaper
24 is not in competition with the mail?

25 A You would go to get that rate by going to another

1 mailer to see if they would mail it for you using postal
2 delivery and under that description, we're not in
3 competition with the U.S. Postal Service.

4 Q Correct. That's what your position is, that even
5 though I'm getting essentially the same service from two
6 different sources, one of which is newspaper delivery
7 combined with some TMC product, however delivered, and an
8 alternate enterprise which offers this in the mail,
9 nonetheless newspaper is not in competition in that
10 situation? That's your testimony?

11 A We would be competing with a mailer for a choice
12 on the advertiser's part between a mix of newspaper and
13 let's say mail or private delivery or mail/private delivery
14 alone from the other person.

15 Q And again, but your view, your testimony is that
16 the newspaper is not in competition with the mailer.

17 A That is not my testimony. My testimony is that
18 the newspaper is not in competition with the Postal Service
19 for it. They are in competition with a mailer for the
20 business.

21 I may be mishearing you, sir. Let's start again.

22 Q All right. Then you've made it clear. You're
23 saying that simply because someone deals with an
24 intermediary instead of the Postal Service, even though that
25 intermediary, in fact, mails the product, that means you're

1 out of competition with the Postal Service. Is that what
2 you're saying?

3 MR. BAKER: Could I have the question repeated? I
4 didn't hear a word. Could you repeat the question?

5 BY MR. TODD:

6 Q Your testimony is that because, in my
7 hypothetical, I'm dealing with an enterprise that, in fact,
8 would mail the product using the Postal Service, the fact
9 that there is an intermediary involved is why you are
10 testifying that your newspaper as such is not in competition
11 with the Postal Service.

12 A I don't see them as an intermediary. I see them
13 as a company that sells distribution and that their choice
14 of distribution is the U.S. Postal Service. I don't know
15 where the term intermediary comes into play.

16 Q Well, --

17 A That's usually something between two groups that
18 negotiate something and the Postal Service is a service.

19 Q Let's use your word. What was your word?

20 A You know something, I'm not sure. It must be
21 getting late in the day.

22 Q There is a company that offers a means of delivery
23 to customers by the use of the Postal Service, right?

24 A Yes. That's a service.

25 Q That's a service. And because of that fact,

1 you're saying that your newspaper, when it delivers a
2 product via its normal newspaper delivery, is not in
3 competition with that company or the Postal Service; is that
4 correct?

5 A We are in competition with that company that has
6 gone to let's say J.C. Penney -- we'll stay with your
7 example -- and said to J.C. Penney, I can put this many
8 copies in this many households in the south Florida
9 marketplace for X number of dollars. We are in competition
10 with that person because we go to J.C. Penney and say --

11 Q All right.

12 A You understand.

13 Q All right. But again, I suppose, then, that if I
14 am with this company that uses the Postal Service and Miami
15 Herald comes along and offers a more attractive price, do
16 you think the Postal Service really cares whether you
17 consider it to be competition or not if it loses the
18 business?

19 A Why would the Postal Service even be involved in
20 the process we just described? I mean, the Postal Service
21 is the vendor that takes care of the direct mailer's
22 distribution. I mean, they might learn that they didn't get
23 the J.C. Penney business because it went to a newspaper and
24 a mailed non-subscriber program, but I don't see why they're
25 in this equation.

1 Q So you think the Postal Service should simply be
2 indifferent if it loses business because a given retail
3 operation, let's say, has chosen to use the Miami Herald
4 rather than someone who is a company that is using the
5 Postal Service for distribution?

6 A I think the Postal Service should recognize who
7 all of their customers are, and in South Florida, the Miami
8 Herald is perhaps their third biggest customer, maybe their
9 fourth but at least their third biggest customer that's in
10 there on an annual basis, and I think that they ought to
11 look at a competitive situation like the selling of the J.C.
12 Penney approach the same way as if J.C. Penney changed their
13 mind and decided to put out a six-week television
14 commercial. They might be angry that they lost the mail
15 because they decided to go to television in that market.
16 NSA does that all the time.

17 Q I don't think in all of that I heard an answer to
18 my question, Mr. Wilson. My question was, should the Postal
19 Service be indifferent to the loss of a mail product and not
20 consider itself to be in competition with the Miami Herald
21 simply because that mail product is going via let's say a
22 shared mail enterprise?

23 A My answer is yes, they should be indifferent, and
24 no, they should not be concerned with what J.C. Penney
25 decides to be their choice of media for that given event.

1 Q Thank you.

2 What if I'm J.C. Penney and I decide I'm going to
3 mail this on my own, through my own as a J.C. Penney piece.
4 It would go to the same saturation market, but it's just
5 going to be J.C. Penney. I'm then in competition --

6 A We'd have then lost the business to J.C. Penney's
7 decision to go to the mail-only.

8 Q Are you in competition with the Postal Service
9 under those circumstances for that J.C. Penney piece?

10 A We do not consider ourselves to be in competition
11 with solo mailers, and that would be a solo mailer.

12 Q Even though the choice may be to mail a piece on
13 their own or to give that piece to the Miami Herald for
14 distribution? That's not competition; is that right?

15 A That's correct, sir. We would bid against that
16 piece using what we know to be J.C. Penney's mail rates and
17 they would make the decision.

18 Q Without any work of competitive forces at work, in
19 your view?

20 A J.C. Penney would be mailing that through some
21 type of a mailer and that mailer would be our competitor for
22 it, not the Postal Service.

23 Q The hypothetical I posed was J.C. Penney was doing
24 it on its own. Does that change things?

25 A No, it doesn't change things in my mind.

1 Q You're still not in competition with the Postal
2 Service under those circumstances?

3 A We are not.

4 Q So it doesn't matter what happens; the fact of the
5 matter is when someone chooses to use your service rather
6 than a service which is using exclusively the mail, you're
7 simply not in competition. That's the essence of your
8 testimony. Have I understood it correctly?

9 A That's the essence of my testimony.

10 MR. TODD: Thank you.

11 CHAIRMAN GLEIMAN: Follow-up?

12 Well, we'll let the first hand that raised go
13 first, and that was Mr. McLaughlin.

14 CROSS EXAMINATION

15 BY MR. McLAUGHLIN:

16 Q Now I'm maybe slightly confused. A lot of the
17 discussion you just had with Mr. Todd concerned newspaper
18 competing with Postal Service versus mailer. I understand
19 --

20 A Excuse me a minute. Can I just move that
21 microphone stand? One way or the other. Thank you. I'm
22 looking at you split vision there, I don't like it.

23 Q The other part of what you said in your testimony
24 was that the non-subscriber TMC private delivery operation
25 does compete with the Postal Service.

1 A It does. The alternate delivery, private delivery
2 programs that --

3 Q And that non-subscriber distribution TMC program,
4 for what volume does it compete with the Postal Service?

5 A Do you mean in a specific market, or -- I'm not
6 sure what --

7 Q Just in general. What does it compete with the
8 Postal Service for?

9 A The alternate delivery companies that we have
10 compete with the Postal Service against the price of postal
11 delivery.

12 Q And what's their alternative?

13 A Their alternative is to either put the delivery
14 jacket that week in the mail or have it delivered by
15 individuals.

16 Q By "they", who do you mean? You mean it's the
17 newspaper's choice --

18 A The alternate --

19 Q -- whether to put it in the mail or in the
20 newspaper?

21 A The alternate --

22 Q Or in the alternate delivery?

23 A Yes, the alternate delivery. Whoever owns the
24 alternate delivery company.

25 Q So in other words, it is the newspaper owner of

1 the private delivery system who makes the decision about
2 whether the TMC distribution should be in a private delivery
3 system or in a mail TMC?

4 A That's correct, sir.

5 Q And so by your definition there, the Postal
6 Service is competing for the newspaper's decision as to
7 which alternative to use? Is that the competition you're
8 talking about?

9 A It's really a price-related competition because we
10 don't go forth as an alternate delivery company and seek to
11 take away from the mail and deliver for non-newspaper
12 companies, at least in our particular areas. Other
13 alternate delivery companies may do that, but we don't. So
14 it's really price derived. The benchmark is what would it
15 cost us on a weekly basis, fully loaded, to mail it versus
16 private deliver it.

17 Q Okay. So there again, you're using competition in
18 the sense that the Postal Service competes for the
19 newspaper's decision as to which alternate to use; is that
20 right?

21 A Yes.

22 Q That's the nature of the competition you're
23 talking about?

24 A Yes. The benchmark is the postal ^{rate} --

25 MR. McLAUGHLIN: No further questions.

1 CHAIRMAN GLEIMAN: Ms. Hanbery?

2 CROSS EXAMINATION

3 BY MS. HANBERY:

4 Q Mr. Wilson, in response to one of my questions,
5 you volunteered some information about a product you
6 referred to as the Herald Card that I think a small business
7 could choose to get a more targeted advertising option in
8 your Herald Values. Did I understand your comments before
9 correct?

10 MR. BAKER: Mr. Chairman, I object. Counsel
11 appears to be following up on her own questioning.

12 CHAIRMAN GLEIMAN: Got you, Ms. Hanbery. Unless
13 somebody else asked a question that this is leading up to,
14 I'm afraid that you can't follow up on yourself.

15 MS. HANBERY: Okay. Thank you.

16 CHAIRMAN GLEIMAN: Mr. Baker could have let you if
17 he wanted.

18 MS. HANBERY: He won't want to now.

19 CHAIRMAN GLEIMAN: Is there any further follow-up?
20 If not, that brings us to redirect. Would you
21 like some time to prepare with your witness, Mr. Baker?

22 MR. BAKER: Five minutes.

23 CHAIRMAN GLEIMAN: You've got it.

24 [Recess.]

25 CHAIRMAN GLEIMAN: Mr. Baker, whenever you're

1 ready.

2 MR. BAKER: The witness has expressed a desire for
3 no redirect, and I'm going to agree with him.

4 CHAIRMAN GLEIMAN: Okay. I guess there won't be
5 any recross in that case.

6 Mr. Wilson, that completes your testimony here
7 today. We appreciate your appearance, your contributions to
8 the record.

9 If you had testified on Witness Smith's testimony,
10 as I tried to get you to do earlier on, you would have had
11 much less cross examination, I'm sure.

12 We want to thank you and you're excused, sir.

13 THE WITNESS: Thank you, sir.

14 [Witness excused.]

15 CHAIRMAN GLEIMAN: Mr. Todd, I believe you have
16 the next witness, and while everybody is getting into place,
17 just let me mention that we've had a change in the line-up
18 for tomorrow. We're going to hear from Post-Com Witness
19 Harding first because as of this point in time, unless Mr.
20 Baker filed a notice to cross that we haven't found yet,
21 there is no request for cross examination.

22 We'll follow that with Dr. Haldi, who is going to
23 clean up tonight and assures me that he'll be able to get up
24 early enough tomorrow morning to be our second witness; then
25 Witness Clifton, Miller, Stacey, Gordon and clean up at the

1 end with Witness Degan tomorrow evening.

2 Whenever you're ready, Mr. Todd.

3 I believe Mr. Prescott is already under oath in
4 this proceeding.

5 MR. TODD: Yes.

6 CHAIRMAN GLEIMAN: I was very confused yesterday
7 with the other Witness Prescott. I wasn't sure which one
8 was going to show up today.

9 MR. TODD: The Mail Order Association of America
10 and Direct Marketing Association are calling to the stand
11 Mr. Roger C. Prescott for the purpose of presenting his
12 rebuttal testimony which has been marked as MOAA et al.
13 RT-1.

14 Whereupon,

15 ROGER C. PRESCOTT,

16 a witness, was called for examination by counsel on behalf
17 of the Mail Order Association of America and Direct
18 Marketing Association and, having been previously duly
19 sworn, was further examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. TODD:

22 Q Mr. Prescott, have you examined this testimony and
23 determined that it is testimony that you have prepared or
24 has been prepared under your direction and control?

25 A Yes, it is.

1 Q And do you adopt it as your testimony today?

2 A Yes, I do.

3 MR. TODD: Mr. Chairman, I would like to hand two
4 copies of the identified testimony to the reporter and
5 request that it be transcribed and admitted into evidence.

6 CHAIRMAN GLEIMAN: Without objection, it is so
7 ordered. The rebuttal testimony of Witness Prescott will be
8 transcribed into the record and entered into evidence.

9 [Rebuttal Testimony of Roger C.
10 Prescott, Exhibit MOAA et al.-RT-1
11 was received in evidence and
12 transcribed into the record.]

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MOAA, ET AL.-RT-1

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**REBUTTAL TESTIMONY
OF
ROGER C. PRESCOTT**

**On Behalf Of
MAIL ORDER ASSOCIATION OF AMERICA
DIRECT MARKETING ASSOCIATION, INC.**

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Due Date: August 14, 2000

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LIST OF EXHIBITS

<u>EXHIBIT</u> (1)	<u>TITLE</u> (2)
MOAA, ET AL.-RT-1A	USPS' Costs by Volumes and Weight Increments--Regular
MOAA, ET AL.-RT-1B	USPS' Costs and Volumes by Weight Increments--ECR
MOAA, ET AL.-RT-1C	Restated Regression Utilizing Cost Per Pound and Pieces Per Pound
MOAA, ET AL.-RT-1D	USPS Witness Daniel's Estimated Standard (A) ECR Unit Cost Per Piece
MOAA, ET AL.-RT-1E	Unit Cost Line Based on Restated Regression--Regular
MOAA, ET AL.-RT-1F	Unit Cost Line Based on Restated Regression--ECR

MOAA, ET AL.-RT-1

I. INTRODUCTION

1 My name is Roger C. Prescott. I am an economist and Executive Vice President of the
2 economic consulting firm of L. E. Peabody & Associates, Inc. The firm's offices are located at
3 1501 Duke Street, Suite 200, Alexandria, Virginia 22314. I am the same Roger C. Prescott who
4 previously submitted Direct Testimony in this proceeding on May 22, 2000 on behalf of the Mail
5 Order Association of America ("MOAA").^{1/} My qualifications were attached as Appendix A to
6 my Direct Testimony

7 In this current proceeding, Postal Rate Commission ("PRC") Docket No. R2000-1, Postal Rate
8 and Fee Changes, 2000 ("R2000-1"), the United States Postal Service's ("USPS") Witness Sharon
9 Daniel (USPS-T-28) submitted a study which examines the impact of changes in weight on changes
10 in unit costs for Standard (A) mail. The results of Witness Daniel's study were used, in part, to
11 support the USPS' proposed rate structure for Standard (A) mail which included a decrease in the
12 pound portion of the piece/pound rate for mail weighing greater than 3.3 ounces (i.e., mail above
13 the breakpoint). Specifically, in this proceeding the USPS is proposing to decrease the pound
14 portion of the piece/pound rates as shown in Table 1 below.

^{1/} I also submitted Direct Testimony in this proceeding on behalf of E-Stamp Corporation.

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Item (1)	Per Pound Portion of Piece/Pound Rate ^{1/}	
	Regular (2)	ECR (3)
1. Current	67.7¢	66.3¢
2. As Proposed by USPS ^{2/}	<u>66.1¢</u>	<u>58.4¢</u>
3. Difference (Line 2 - Line 1)	(-)1.6¢	(-)7.9¢

^{1/} For mail weighing greater than 3.3 ounces per piece.
Excludes discounts for destination entry.

^{2/} Moeller (USPS-T-35), pages 8 and 19.

13 As shown on Line 3 of Table 1 above, the USPS is proposing to decrease the pound portion of the
14 piece/pound rate by 1.6 cents per pound for Standard (A) Regular ("Regular") mail and 7.9 cents
15 per pound for Standard (A) Enhanced Carrier Rate ("ECR") mail.

16 In addition to the above changes to the per pound portion of the Standard (A) rate structure,
17 the USPS has also proposed continuation of the differences in the per piece rates for letter-shaped
18 and flat-shaped ECR mail qualifying for the high density and saturation discounts. The USPS'
19 proposed rate differential for letters and flats equals 0.2 cents per piece for high density mail and
20 0.5 cents per piece for saturation mail.^{2/}

^{2/} Moeller, page 28, (as summarized in Table 7 to this Rebuttal Testimony).

1 Finally, the USPS has presented rates that reflect a cost coverage ratio of 209 percent in its
2 Test Year After Rates ("TYAR") analysis.^{3/} This coverage ratio is 24 percent higher than the
3 USPS' proposed coverage ratio of 168 percent for all mail and services.

^{3/} Mayes (USPS-T-32), Exhibit-32B.

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II. PURPOSE OF TESTIMONY

2 I have been asked by MOAA and Direct Marketing Association, Inc. ("MOAA, et al.") to
3 review the Direct Testimony, the responses to interrogatories and the underlying workpapers of
4 Val-Pak Marketing Systems, Inc., Val-Pal Dealers' Association, Inc. and Carol Wright
5 Promotions, Inc.'s (referred to collectively herein as "VP/CW") Witness John Haldi and
6 Newspaper Association of America's ("NAA") Witness William B. Tye in order to evaluate their
7 respective testimony related to the USPS' Witness Daniel's study of the changes in costs when
8 weight changes. In order to address their criticisms, I have reviewed Witness Daniel's testimony
9 (and supporting workpapers) in order to assess the validity of her conclusion regarding the
10 existence of a relationship between changes in mail weight and changes in the unit costs for
11 Regular and ECR mail. I have also been requested by MOAA to review VP/CW's Witness
12 Haldi's assertion that within ECR mail, the USPS has systematically overstated the costs of letter-
13 shaped mail while correspondingly understating the costs of flat-shaped mail. Finally, I have been
14 asked by MOAA to review the testimony of American Bankers Association and National
15 Association of Presort Mailers' (referred to collectively herein as "ABA/NAPM") Witness James
16 A. Clifton regarding the fairness of the coverage ratio of Standard (A) mail versus First Class
17 mail.

18 The results of my analyses are summarized under the following topics:

19 III. Summary and Conclusions

20 IV. USPS Studies of the Relationship of Costs and Weight

21 V. Revised Analysis of the Relationship of Costs and Weight

- 1 VI. Witness Haldi's and Witness Tye's Critique of USPS' Study
- 2 VII. Cost Differential for Letters and Flats
- 3 VIII. Cost Coverage for Standard (A) and First Class Mail

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III. SUMMARY AND CONCLUSIONS

2 Based on my review and analysis of the testimony presented by Witnesses Haldi and Tye, I
3 conclude that the per pound portion of the rates for Standard (A) Regular and ECR mail should
4 be no higher than the rates proposed by the USPS. I also conclude that no basis exists to support
5 Witness Haldi's contention that the cost differential between letter-shaped mail and flat-shaped
6 mail developed by the USPS should be increased. Finally I conclude that the proposed coverage
7 ratio for ECR mail is not improper when compared to First Class mail. My conclusions are based
8 on the analyses presented in this Rebuttal Testimony and summarized as follows:

- 9 1. The PRC should accept the rates for Standard (A) Regular and ECR mail as presented by
10 the USPS' Witness Moeller (USPS-T-35). As part of his rate structure, Witness Moeller
11 proposed a pound rate for mail weighing more than 3.3 ounces of 66.1 cents per pound
12 for Regular mail and 58.4 cents per pound for ECR mail.
- 13 2. Using the same base data as relied upon by Witness Daniel, an alternative simple linear
14 regression demonstrates a strong relationship between changes in the cost per pound and
15 changes in the number of pieces per pound. For Regular mail, my regression identifies
16 a cost line equal to the sum of 11.1 cents per piece plus 52.5 cents per pound. For ECR
17 mail, my regression identifies a cost line equal to the sum of 5.6 cents per piece plus 17.6
18 cents per pound. This analysis supports the conclusion that the per pound portion of the
19 rates should be no greater than the rates proposed by the USPS.
- 20 3. Witness Haldi's and Witness Tye's criticism regarding the lack of support for a reduced
21 pound rate for Standard (A) mail is misplaced. When their criticisms are viewed in light
22 of my analysis, the per pound portion of the rates should be no higher than the USPS'
23 proposed rates for Standard (A) mail.
- 24 4. Witness Haldi is incorrect in his claim that a mismatch occurs between the costs for ECR
25 letters and ECR flats. Witness Haldi's cost calculations are based on improper procedures
26 which do not measure the actual cost differences between letters and flats qualifying for
27 the ECR high density or saturation rates. In addition, in the source data relied upon by
28 Witness Haldi, the USPS has already corrected the data to consider any mismatch. When
29 the data is properly analyzed, the USPS' calculation of a letter/flat differential of 0.2 cents
30 per piece for high density mail and 0.5 cents per piece for saturation mail is valid.

- 1 5. Witness Clifton's assertion that ECR mail is receiving preferential treatment when
2 compared to First Class mail is not valid. Much of the increase the coverage ratio for
3 First Class mail is due to decreases in costs which the PRC has recognized as support for
4 increasing the cost coverage. The contribution per piece for ECR mail has increased at
5 the same approximate rate as First Class mail. In addition, average rates for ECR mail
6 have increased almost twice as fast as First Class mail over the time period studied by
7 Witness Clifton.

1 **IV. USPS STUDIES OF THE RELATIONSHIP OF COSTS AND WEIGHT**

2 In the past, the USPS has conducted numerous studies regarding the impact of changes in
3 costs caused by changes in weight. These studies date as far back as Witness Madison's study
4 in PRC Docket No. R84-1, Postal Rate and Fee Changes, 1983 ("Docket No. R84-1"). The USPS
5 submitted a similar study in PRC Docket No. MC95-1, Mail Classification Schedule, 1995,
6 Classification Reform I ("Docket No. MC95-1"). The most recent study submitted to the PRC
7 prior to the present proceeding was by the USPS' Witness Michael R. McGrane in PRC Docket
8 No. R97-1, Postal Rate and Fee Changes, 1997 ("R97-1"). Witness McGrane concluded that unit
9 costs have an upward trending relationship with mail weight.^{4/} The PRC, in its Docket No. R97-1
10 decision, criticized Witness McGrane's study for excluding a comprehensive analysis of cost-
11 causing factors. Specifically, the PRC questioned Witness McGrane's assignment of non-In-Office
12 Cost System ("IOCS") related costs to weight increments based upon various volumetric measures
13 rather than using more appropriate weight-based metrics.^{5/}

14 The USPS' current study of the impact of changes in costs due to changes in weight submitted
15 by the USPS' Witness Daniel addressed Witness McGrane's non-IOCS cost assignment. In her
16 analysis Witness Daniel allocated the elemental load portion of street delivery costs based on
17 weight by shape instead of on pieces as was done by Witness McGrane in Docket No. R97-1.^{6/}
18 Witness Daniel also refined her study by improving the methodology utilized to distribute mail

^{4/} Docket R97-1, McGrane, (USPS-ST-44) Exhibit USPS-44B, page 2.

^{5/} Docket R97-1 decision, page 401.

^{6/} Daniel, page 9.

1 processing volume variable costs to weight increments.^{7/} In my opinion, Witness Daniel's new
2 technique improves on the methodology employed by the USPS' Witness McGrane in PRC
3 Docket No. R97-1, as well as the studies presented in Docket No. MC95-1 and Docket No. R84-
4 1.

5 In response to interrogatories submitted by ADVO, Witness Daniel refined her model to an
6 even greater extent. ADVO requested that Witness Daniel provide costs, mail volumes, and unit
7 costs for ECR in total and ECR flats with adjustments to eliminate the cost savings associated with
8 worksharing (i.e., the cost savings for destination entry and presortation).^{8/} The results of
9 ADVO's request is an analysis which provides more information about the causative factors of the
10 cost-weight relationship than any previous USPS study.^{9/}

^{7/} The details of Witness Daniel's study were presented in Library Reference USPS-LR-I-92 ("LR-92") and the responses to ADVO, Inc.'s ("ADVO") interrogatories.

^{8/} ADVO/USPS-T28-10 through ADVO/USPS-T28-11.

^{9/} As discussed below, I have not relied on the additional detailed information provided in response to ADVO's interrogatories to develop my restated regressions because my analysis shows a significantly high correlation of cost to weight utilizing all costs for each weight interval (including worksharing reductions). No further adjustment was necessary to show the validity of the USPS' proposed pound portion of the piece/pound rates.

1 **V. REVISED ANALYSIS OF THE RELATIONSHIP OF COSTS AND WEIGHT**

2 Witness Daniel's approach to analyzing changes in costs as weight changes produced results
3 that were subject to criticisms raised by Witnesses Haldi and Tye. These are discussed in Section
4 VI below to this Rebuttal Testimony. In summary, using a more appropriate approach to
5 analyzing the relationship of cost and weight while still relying on Witness Daniel's base data
6 demonstrates that the IOCS produces valid data which can be reliably used to show the effect of
7 weight upon costs. This section of my Rebuttal Testimony presents my alternative approach and
8 the results of my analysis under the following topics:

- 9 A. Revised Cost Study Approach
10 B. Statistical Reliability of Restated Regressions
11 C. Impact of Statistical Outliers
12 D. Summary

13 **A. REVISED COST STUDY APPROACH**

14 Witness Daniel implicitly utilized the cost relationship between five interacting elements to
15 derive her unit costs for Regular and ECR mail. The relationship of changes in costs associated
16 with changes in weight for Standard (A) mail can be viewed as the interaction of the following five
17 key factors:

- 18 1. Volume;
19 2. Weight;
20 3. Aggregate costs;

1 4. Average Unit Cost Per Piece; and

2 5. Average Unit Cost Per Pound^{10/}

3 Witness Daniel utilized the average weight per piece and average cost per piece as inputs into
 4 her regression model. ^{11/} In other words, she developed the average weight per piece (for each
 5 interval) by dividing total weight for that weight interval by total pieces for the weight interval.
 6 Next, she divided the aggregate costs for each weight interval by total pieces for the weight
 7 interval to develop average costs per piece. The cost per piece and average weight per piece
 8 utilized as the inputs for Witness Daniel's regression model for Regular mail are summarized in
 9 Column (5) and Column (6) of Exhibit MOAA, ET AL.-RT-1A to my Rebuttal Testimony. The
 10 inputs for Witness Daniel's regression model for ECR mail are summarized in Column (5) and
 11 Column (6) of Exhibit MOAA, ET AL.-RT-1B to my Rebuttal Testimony. Witness Daniel's
 12 approach results in statistical outliers as well as wide variances in weight and volume as pointed
 13 out by Witnesses Haldi and Tye.

14 Another approach to studying the cost-weight relationship, and one that I applied in my
 15 analysis, is to determine the average cost per pound rather than the average cost per piece as

^{10/} From a mathematical perspective, the cost-weight relationship can be described by the following equation:

$$Y = a * x_1 + b * x_2$$

Where

- Y = Total cost within a weight interval
- X₁ = Total volume (pieces) within a weight interval
- X₂ = Total weight within a weight interval
- a = The average unit cost per piece
- b = The average unit cost per pound

^{11/} Algebraically, Witness Daniel divided the factors in the equation above by the total number of pieces. This process yields the following equation: $Y/X_1 = a + b(X_2/X_1)$ which is equivalent to the regression lines in Witness Daniel's analysis in LR-92.

1 Witness Daniel has done in her model.^{12/} Instead of dividing the equation by the total number of
 2 pieces, I divide by the total pounds. The inputs for my analysis utilize the average pieces per
 3 pound (16 ounces per pound ÷ the average weight per piece for each weight interval) and the
 4 average cost per pound (total cost per weight interval ÷ total pounds per weight interval).

5 Using the Regular mail data contained in Exhibit MOAA, ET AL.-RT-1A and the ECR mail
 6 data contained in Exhibit MOAA, ET AL.-RT-1B, I performed a simple least squares regression
 7 to determine the average cost per piece and average cost per pound for both Regular and ECR
 8 mail. For Regular mail, my regression utilizes the pieces per pound and the cost data shown in
 9 Column (7) and Column (8) of Exhibit MOAA, ET AL.-RT-1A. For ECR mail, my regression
 10 utilizes the pieces per pound and the cost data shown in Column (7) and Column (8) of Exhibit
 11 MOAA, ET AL.-RT-1B. The results of my regression analyses are shown in Table 2 below.

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Subclass	Cents Per Pound	Cents Per Piece	R Squared
(1)	(2)	(3)	(4)
1. Regular	52.5	11.1	0.959
2. ECR	17.6	5.6	0.965

Sources: Spreadsheet titled "Prescott workpapers for MOAA, ET AL-RT-1.xls" submitted with this testimony.

^{12/} My analysis derives the following equation: $Y/X_2 = b + a(X_1/X_2)$. Then using algebra, it is possible to convert the cost per pound equation to an equivalent cost per piece equation.

1 My regression analysis produces the following equations to calculate the cost per piece as
2 weight changes for Regular and ECR mail:

3 Regular = 11.1 cents per piece + [52.5 cents per pound x (ounces per piece ÷ 16 ounces
4 per pound)]

5 ECR = 5.6 cents per piece + [17.6 cents per pound x (ounces per piece ÷ 16 ounces
6 per pound)]

7 Exhibit MOAA, ET AL.-RT-1C is a graphical comparison of the data points and my
8 regression analyses for Regular and ECR mail.^{13/} The results of my analysis above show that the
9 cost per pound for Regular mail is much larger than the cost per pound for ECR mail. This is not
10 unexpected and, in fact, was recognized by Witness Haldi. In his testimony, Witness Haldi noted
11 that ECR mail cost less than Regular mail.^{14/} In addition, the greater presortation and depth of
12 dropshipping also contribute to reductions in weight related costs for ECR mail.

13 **B. STATISTICAL RELIABILITY**
14 **OF RESTATED REGRESSIONS**

15 The reliability of the results of a regression analysis can be judged by various statistics. The
16 key statistic in a regression analysis is the coefficient of determination, or more commonly known
17 as the R-squared ("R²") value. In my analysis, the R² value illustrates the proportion of the
18 variability in the cost per pound which is explained by the relationship to the number of pieces per
19 pound. In other words, how much of the change in the cost per pound is explained by the change
20 in the number of pieces per pound.

^{13/} Page 1 of 2 of Exhibit MOAA, ET AL.-RT-1C graphically shows the data points and regression line for Regular mail. The data points and regression line for ECR mail are graphically depicted on Exhibit MOAA, ET AL.-RT-1C, page 2 of 2.

^{14/} Tr. 32/15759.

1 As shown in Table 2 above, my revised regression has an R^2 value of 95.9 percent for Regular
2 mail and 96.5 percent for ECR mail. The regression in my analysis indicates that over 95 percent
3 of the change in the cost per pound is explained by changes in the pieces per pound. This
4 illustrates that there is a strong relationship between changes in unit costs and changes in weight.

5 **C. IMPACT OF STATISTICAL OUTLIERS**

6 As I discuss in Section VI. below, Witness Tye and Witness Haldi fault Witness Daniel for
7 the extreme outlying values in her data and the measures she took to improve her analyses by
8 combining weight intervals. Aggregating data, as Witness Daniel has done, minimizes the
9 negative impact of the outlying data, but this aggregation also hides important explanatory
10 information. A better methodology is to retain all the data, in as much detail as possible. My
11 restated analysis presented here in my Rebuttal Testimony accomplishes this goal because the form
12 of the data I have utilized (i.e., costs per pound and pieces per pound) maintains all of the weight
13 intervals, but does not result in any outlying values.

14 I have created a graphical example to demonstrate this point. Exhibit MOAA, ET AL.-RT-
15 1D represents the graph prepared by Witness Daniel illustrating the relationship she developed
16 between ECR unit costs and weight per piece. Data Point A in Exhibit MOAA, ET AL.-RT-1D
17 is the average cost per piece for mail within the 15-16 ounce weight interval. As Exhibit MOAA,
18 ET AL.-RT-1D illustrates, Data Point A shows a wide variance from the other values in the set
19 of data utilized by Witness Daniel.

1 In contrast to the data set used by Witness Daniel in her analysis, the data set I utilized
2 contains no statistical outliers. Exhibit MOAA, ET AL.-RT-1C, page 2 of 2 is a scatter-plot
3 diagram of the data range for ECR mail used in my revised analysis utilizing the same basic data
4 from LR-92 (aggregate pieces, pounds and costs) that Witness Daniel utilized^{15/}. Data Point A
5 in Exhibit MOAA, ET AL.-RT-1C shows the average pieces per pound in the 15-16 ounce weight
6 interval. This is the same weight interval which produced the statistical outlier in Witness
7 Daniel's analysis. In my revised analysis the data for the 15-16 ounce weight interval is within
8 the normative range of the entire data set. By examining the cost-weight relationship from this
9 revised approach, I have retained the explanatory value of each outlying weight interval but
10 eliminated the statistical abnormalities included in Witness Daniel's data set.

11 **D. SUMMARY**

12 My revised cost-weight study illustrates two points. First, the regression model in my
13 analysis of the USPS' data shows a strong relationship exists between changes in costs and changes
14 in weight for Standard (A) mail. As described above, 95.9 percent of the change in unit costs in
15 Regular mail is explained by changes in the weight function. The results are equally significant
16 for ECR mail with 96.5 percent of the change in unit costs explained by changes in the weight
17 function.

18 Second, the practical implication of my revised analysis is an ability to generate, with
19 statistical accuracy, the estimated unit costs for both Regular and ECR mail at key weight
20 intervals. Table 3 below summarizes the cost line for Regular and ECR mail based on the results

^{15/} The numeric values for the inputs are shown in Exhibit MOAA, ET AL.-RT-1B.

1 of my regression analysis for each 1 ounce increment and the rate breakpoint of 3.3 ounces. A
 2 graphical representations of these estimated unit costs are found in Exhibit MOAA, ET AL.-RT-
 3 1E and MOAA, ET AL.-RT-1F to my Rebuttal Testimony.

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Weight (ounces)	Regular ^{1/}	ECR ^{2/}
(1)	(2)	(3)
1. 1	14.4	6.7
2. 2	17.7	7.8
3. 3	20.9	8.9
4. 3.3	21.9	9.2
5. 4	24.2	11.0
6. 5	27.5	11.1
7. 6	30.8	12.2
8. 7	34.1	13.3
9. 8	37.3	14.4
10. 9	40.6	15.5
11. 10	43.9	16.5
12. 11	47.2	17.6
13. 12	50.5	18.7
14. 13	53.7	19.8
15. 14	57.0	20.9
16. 15	60.3	22.0
17. 16	63.6	23.1

^{1/} 11.1 cents per piece + (52.5 cents per pound ÷ 16 ounces x weight per piece in ounces).
^{2/} 5.6 cents per piece + (17.6 cents per pound ÷ 16 ounces x weight per piece).

33 The USPS has proposed rates with the pound portion equaling 66.1 cents per pound for
 34 Regular mail and 58.4 cents per pound for ECR mail. My regression results in a pound
 35 component of the costs equaling 52.5 cents per pound for Regular mail and 17.6 cents per pound
 36 for ECR mail. My regression analysis demonstrates that the USPS' proposed pound portion of

1 the rates increases faster than the actual pound-related costs. My analysis supports the conclusion
2 that the changes in the pound portion of the rates proposed by the USPS as shown in Table 1 above
3 are justified and fair.

1 **VI. WITNESS HALDI'S AND WITNESS TYE'S CRITIQUE OF USPS' STUDY**

2 Both VP/CW's Witness Haldi and NAA's Witness Tye criticize the underlying data and
3 results of Witness Daniel's study of the changes in costs with changes in weight. Many of
4 Witnesses Tye and Haldi's criticisms are simply rhetoric and unfounded assertions. This does not
5 mean that the way Witness Daniel presented her data and the results could not be improved (as I
6 demonstrated above). Any perceived shortcomings in Witness Daniel's study can be overcome,
7 as I have shown, by using simple statistical procedures.

8 In general, Witness Haldi rejects the USPS's study as a wholly inadequate tool for ratemaking
9 purposes, stating:

10 "...studies of the weight-cost relationship offered by the Postal Service in this
11 docket must again be rejected as inadequate to demonstrate that the effect of
12 weight on cost is overstated. They provide no basis for the commission to
13 recommend a drastic reduction in the pound rate as requested by the Postal
14 Service."^{16/}

15 Witness Tye summarizes his criticism of Witness Daniel's weight-cost analysis, stating:

16 "I find that the data gathered for this analysis are not reliable. I further find that
17 the cost data are inconsistently applied to justify First Class and Standard (A) rate
18 design proposals...Since the result of the distribution key analysis (weight-cost
19 study) are "cherry picked", they form no reliable basis for changes in the ECR
20 pound rate"^{17/}

^{16/} Tr. 32/15772.

^{17/} Tr. 30/14692.

1 This section of my Rebuttal Testimony summarizes the criticisms raised by Witnesses Haldi
2 and Tye and explains the reasons why I believe that their criticisms are not valid or that the effect
3 of the criticism can be overcome by modifications to the statistical analysis of the data (as I have
4 done). My review is discussed under the following topics:

- 5 A. Witness Daniel's Changes to the Methodology Used in R97-1
- 6 B. Witness Daniel Addressed Previous Criticisms
- 7 C. Differences Between Unreliable and Imprecise Data
- 8 D. Adjustments to Reflect Worksharing
- 9 E. Impact of Data for 15-16 Ounce Weight Interval
- 10 F. Impact of Weighted Data
- 11 G. Impact of Thin and Non-Mail Handling Tallies
- 12 H. Summary

13 **A. WITNESS DANIEL'S CHANGES TO**
14 **THE METHODOLOGY USED IN R97-1**

15 Witness Tye claims that the study prepared and submitted by Witness Daniel is nearly
16 identical to the study submitted by the USPS' Witness McGrane in Docket No. R97-1.^{18/} However,
17 Witness Daniel's study made two (2) significant changes to the procedures followed by Witness
18 McGrane in Docket No. R97-1.

19 First, Witness Daniel changed the allocation basis for the elemental load portion of street
20 delivery costs. In Docket No. R97-1, Witness McGrane allocated these portions of elemental load

^{18/} Tr. 30/14698.

1 costs on a piece basis (elemental load includes the time spent handling mail pieces at the point of
2 delivery).^{19/} Studies have shown that shape is a key driver in elemental load costs.^{20/} Witness
3 Daniel, therefore, concluded that shape is not the only force impacting elemental load cost, i.e.,
4 weight is also a pertinent factor of elemental load cost.^{21/}

5 Second, Witness Daniel modified the methodology to distribute weight-based costs when the
6 actual weight may not be known. In the USPS' weight-cost study in R97-1,^{22/} the USPS used the
7 average cost of mail for all subclasses to allocate unknown costs to each subclass. In her study,
8 Witness Daniel adopted an alternative methodology utilizing the information where the weight is
9 known within a specific cost pool, activity code or subclass to distribute cost information from
10 tallies where the weight is unknown. This use of costs assigned to each subclass to allocate costs
11 from tallies (for that specific subclass) with unknown weight provides a greater level of precision
12 in the allocation of costs than was available in previous studies.^{23/}

13 **B. WITNESS DANIEL ADDRESSED**
14 **PREVIOUS CRITICISMS**

15 Witness Tye claims that Witness Daniel's study fails to address the criticisms raised by the
16 PRC in Docket No. R97-1.^{24/} He does this by selectively quoting portions of the PRC's decision
17 in Docket No. R97-1 and by de-emphasizing the changes made by Witness Daniel in the study
18 presented in this proceeding.

^{19/} Daniel, page 8.

^{20/} Daniel, page 8.

^{21/} Daniel, page 8.

^{22/} McGrane, USPS-ST-44.

^{23/} Costs within a specific cost pool, activity code or subclass provide a better proxy for allocating costs because they more accurately reflect the characteristics inherent in that group of costs.

^{24/} Tr. 30/14698.

1 Witness Tye quotes the PRC's decision in Docket No. R97-1 in an attempt to show the USPS
2 had not responded to the PRC's criticisms of its previous study.^{25/} In the passages cited, Witness
3 Tye omitted portions of the PRC's opinion which show that Witness Daniel did, in fact, address
4 the PRC's criticisms of the Docket No. R97-1 study. Witness Tye's selective quote showed two
5 criticisms which are, in fact, only one issue addressed by the PRC, namely the assignment of non-
6 IOCS costs (i.e., delivery costs) on a volumetric or piece basis instead of a weight basis.
7 Examination of the full text of the PRC's opinion shows that Witness Tye omitted the portions of
8 the PRC's decision which are relevant to the evaluation of Witness Daniel's methodology. In the
9 text of the PRC's opinion, Witness Tye did not include the underlined portions of the following
10 quotes:

11 "Another problem with the cost-weight study is that it contains no comprehensive
12 study of cost-causing factors. The non-IOCS related costs are assigned to weight
13 increment on the basis of various volumetric measures."^{26/}

14 "The Postal Service sheds no light on the subject as it assumes that delivery costs
15 are piece-related. Where the Service has failed to test these rationales or its own
16 theories, there is no sound basis on the record for distributing carrier street costs
17 to ounce increments. This is a serious shortcoming as elemental load time
18 accounts for approximately one-half of carrier street attributable cost."^{27/}
19 (emphasis added)

20 As shown above, Witness Daniel changed the method of allocating elemental delivery costs
21 in her study in this proceeding to address the PRC's issue with the earlier study.

^{25/} Tr. 30/14698.

^{26/} R97-1 decision, page 401.

^{27/} R97-1 decision, page 402.

1 Witness Haldi believes that the deficiencies in the IOCS data require that the USPS undertake
2 an engineering study or a simulation analysis to gather the data necessary for an all encompassing
3 analysis of the impact of weight on costs.^{28/} Witness Tye also criticizes Witness Daniel's use of
4 IOCS data.^{29/} Both Witness Haldi and Witness Tye overlook the benefits of utilizing IOCS data
5 and the shortcomings of that would be present in an empirical engineering study.

6 As Witness Daniel describes in her testimony, the IOCS supplied data provides an inherent
7 advantage over other potential data sources because of the completeness of the data. She noted:

8 "An IOCS-based analysis, however, is adopted here because the IOCS samples
9 employees in all mail processing and carrier in-office operations around the clock,
10 24 hours per day, 7 days per week."^{30/}

11 In other words, the data supplied by the IOCS provides a view of the entire USPS operation and
12 not a limited subset of individual postal processes.

13 Furthermore, Witness Daniel points out that a study of limited scope may not provide a
14 superior quality of data than that used in her analysis, noting:

15 It is doubtful that a one-time field study could be superior to the data used in the
16 weight studies described in my testimony, which are based on a national sample
17 of all operations over the course of a year.^{31/}

18 I agree with Witness Daniel that the use of the IOCS data represents the broad spectrum of
19 the costs incurred by the USPS over an extended period and should be superior to the data that

^{28/} Tr. 32/15848.

^{29/} Tr. 30/14700.

^{30/} Daniel, page 34.

^{31/} Tr. 4/1174.

1 would be potentially developed in an engineering study of the changes in costs associated with
2 changes in weight. For purposes of this proceeding, the IOCS data is adequate for the analysis
3 of changes in costs due to changes in weight as presented by Witness Daniel and me.

4 **C. DIFFERENCES BETWEEN**
5 **UNRELIABLE AND IMPRECISE DATA**

6 Witness Tye asserts that Witness Daniel has discredited her own study, stating that "witness
7 Daniel herself concedes that her data are so unreliable as to be useful only for a broad view."^{32/}
8 Witness Daniel only qualified her testimony in regard to the precision of her study and not the
9 reliability of her analysis. Imprecision in the data does not mean that her study is unreliable.^{33/}

10 Contrary to Witness Tye's testimony, Witness Daniel does not concede that her data is
11 unreliable. Witness Daniel only stipulates that her data is not precise, and in this instance, exact
12 precision is not necessary. In any analysis, the required precision of the data is a direct function
13 of the data's end use. In other words, where less than exact data will suit the purpose of the
14 researcher, then exact precision may not be necessary. Because the USPS has not used the study
15 as the only criteria for its proposed rates, further precision is not needed.

16 As Witness Daniel points out, the USPS' pricing witnesses do not utilize the exact weight
17 interval point estimates produced in her cost study for the USPS' rate proposal. Instead of using
18 point estimates, the USPS uses the overall cost relationships in their price setting analyses.^{34/} The

^{32/} Tr. 30/14699.

^{33/} In any event, my restatement of the study of changes in costs with changes in weight shows that a valid relationship does exist and supports that the pound portion of the rate should be no higher than the rates proposed by the USPS.

^{34/} Tr. 4/1307.

1 overall conclusion of the regression analyses shows that the USPS' rate structure is supported, in
2 total, by the results of the study of the changes in costs associated with changes in weight. Stated
3 differently, the regression results are not used to set the pound portion of the proposed rates,
4 however, the regression analysis show, with great statistical reliability, that costs are increasing
5 much less rapidly than the USPS' proposed rates.

6 **D. ADJUSTMENTS TO**
7 **REFLECT WORKSHARING**

8 Both Witness Haldi and Witness Tye criticize Witness Daniel for improperly accounting for
9 worksharing.^{35/} When Witness Daniel does adjust ECR flat data for worksharing, Witness Haldi
10 misstates the results of her adjustment when he claims:

11 "An effort is made to adjust for destination entry which increases the weight
12 related cost over the initial effort." (emphasis added)^{36/}

13 Witness Haldi's conclusion is wrong. The exclusion of costs related to worksharing decreases
14 the weight-related cost. Based on the data utilized by Witness Daniel, Table 4 below compares
15 the estimated cost per ounce for mailing ECR flats before and after adjustments to reflect
16 worksharing. In all cases, the estimated weight-related cost per ounce in Witness Daniel's
17 analyses decreases when worksharing adjustments are made.

^{35/} Tr. 32/15827-15879 and Tr. 32/15838-15840.

^{36/} Tr. 32/15829.

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Item (1)	Cents Per Ounce		
	Unadjusted (2)	Worksharing Adjusted ^{2/} (3)	Difference ^{4/} (4)
1. Utilizing Witness Daniel's Detailed Weight Increments	1.55¢ ^{1/}	1.42 ¢	0.13¢
2. Utilizing Witness Daniel's Combined Weight Increments	1.37 ^{2/}	1.24	0.13

^{1/} LR-92, Worksheet LR92bECR.xls, sheet ECR Flats (detailed).
^{2/} LR-92, Worksheet LR92bECR.xls, sheet ECR Flats (combined).
^{3/} ADVO/USPS-T28-10 (Tr. 4/1210-1211).
^{4/} Column (2) minus Column (3).

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In Witness Daniel's data, worksharing reduces the cost per ounce by 0.13 cents per ounce. This contradicts Witness Haldi's assertion that worksharing increases weight-related costs.

**E. IMPACT OF DATA FOR
15-16 OUNCE WEIGHT INTERVAL**

Witness Tye critiques the statistical validity of Witness Daniel's cost data for the highest weight interval (15-16 ounces) in all classes of Standard (A) mail.^{37/} Witness Tye hypothesizes that high unit costs within the 15-16 ounce weight interval are the result of more tallies recorded at this level than at the other heavy weight intervals.^{38/} Therefore, Witness Tye concludes that the cost figures in the 15-16 ounce weight interval for all Standard (A) mail have greater support than those of the other heavy weight increments in Witness Daniel's study.

^{37/} Tr. 30/14700.
^{38/} Tr. 30/14701.

1 Whether or not the high unit costs in the 15-16 ounce weight interval are the result of more
 2 tallies or another factor is irrelevant. The issue is whether or not the costs contained in the 15-16
 3 ounce weight interval of Witness Daniel's study have a negative effect on her regression (i.e.,
 4 reduces the statistical correlation). To test whether the 15-16 ounce interval is a statistical outlier
 5 and significantly impacts the results of Witness Daniel's analysis, I removed the data in her
 6 analysis and recalculated the ECR regression model for all shapes contained in LR-92.^{39/} The
 7 results obtained by removing the 15-16 ounce weight interval data confirm that the data in the 15-
 8 16 weight interval negatively impacts her cost study. A comparison of the results of the two
 9 regressions is shown in Table 5 below.

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Table 5
Weight-Cost Relationship for ECR All Shapes Data--
Comparison of Alternative Regression Models

Regression	Cents Per Pound				Cents Per Piece			
	Lower	Coefficient	Upper	Variation ^{1/}	Lower	Coefficient	Upper	Variation ^{2/}
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. USPS Daniel - All Data	18.4¢	30.7¢	43.0¢	12.3¢	-5.3¢	1.3¢	7.8¢	6.5¢
2. USPS Daniel - 15-16 oz. Weight Interval Omitted	15.7	20.1	24.5	4.4	1.9	4.0	6.2	2.2

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19 Sources: USPS-LR-1-92 Excel sheet: ECR All (detailed).
20 ^{1/} Column (4) minus Column (3).
21 ^{2/} Column (7) minus Column (6).

22 Line 1 of Table 5 shows the upper-bound, lower-bound and regression coefficient of ECR
 23 mail cost on a per pound and cost per piece basis with the 15-16 ounce weight interval included

^{39/} From a statistical standpoint, any data point which lies more than four standard deviations away from a regression line created by regressing the data range without the suspect data can be considered an outlier.

1 as a data point.^{40/} Line 2 of Table 5 shows the same test results with the data for the 15-16 ounce
2 weight interval omitted from the regression. By omitting the 15-16 ounce weight interval, the
3 variation per pound is reduced from 12.3 cents per pound to 4.4 cents per pound (Table 5, Column
4 (5)). Similarly, when the data for the 15-16 ounce weight interval is eliminated, the variation per
5 piece decreases from 6.5 cents per piece to 2.2 cents per piece (Table 5, Column (9)).

6 Witness Daniel attempts to temper the impact of these outlying points on all Standard (A) mail
7 costs by combining the 15-16 ounce weight interval with other heavyweight intervals in her data
8 set (i.e., 13-14 ounce and 14-15 ounce intervals).^{41/} Combining the heaviest weight-intervals as
9 Witness Daniel has done may reduce the impact of the outlying data point but this adjustment may
10 also obscure significant information that the 15-16 ounce weight interval may contain. In my
11 opinion, when the data is properly analyzed (as I have done in Section V above) no reason exists
12 to exclude (or otherwise aggregate) the data for the 15-16 ounce weight interval.

13 **F. IMPACT OF WEIGHTED DATA**

14 Witness Tye points out that Witness Daniel's study provides equal statistical weight to each
15 weight increment while ignoring the varying volumes and weights in those increments. For
16 example, Exhibit MOAA, ET AL.-RT-1B included in this testimony shows volumes for ECR mail
17 range from 13 million pieces in the 15 to 16 ounce weight interval up to 6.56 billion pieces in the
18 0 to 0.5 ounce weight interval. This reflects a volume multiple of 502 ($6.5 \text{ billion} \div 0.13 \text{ billion}$).

^{40/} A regression analysis provides statistically probable estimates for a value based on a specific confidence interval. In this instance, I use a 95% confidence interval for estimates. The practical implications of the regression are that in this instance, I can say with 95% confidence that the estimated cost of each variable (i.e., weight and volume) lies between the upper-bound and the lower-bound and that the regression coefficient is the most likely value.

^{41/} Tr. 4/1343.

1 Such a wide variance in a key variable (i.e., volume) will, in almost all cases, impact the results
2 of a regression analysis.

3 To test whether the variances in weight and volume between the different weight intervals
4 affected ECR mail unit costs, I applied weighted regressions to Witness Daniel's data adjusting
5 for variances in weights and in volumes.^{42/} The results of Witness Daniel's regressions and
6 regressions weighted on pieces or pounds are shown in Table 6 below.

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Regression	Cost Per Pound (cents)
(1)	(2)
1. USPS Daniel - All Data	30.7c
2. USPS Daniel Interval 15-16 oz. Omitted	20.1
3. Weighted Regressions	
a. Weighted on Pieces	11.0
b. Weighted on Pounds	17.9
Sources: Lines 1 and 2: USPS-LR-I-92 Excel sheet: ECR All (detailed). Lines 3: "Prescott Workpapers for MOAA, ET AL-RT-1.xls" submitted in support of this testimony.	

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21 The weighted regression adjusted for mail volume (Table 6, Line 3a) produces an estimated
22 cost of 11.0 cents per pound which is 64.2 percent lower than the Witness Daniel's estimate of
23 30.7 cents per pound (Table 6, Line 1) and 45.2 percent per pound less than the results of utilizing
24 Witness Daniel's data with the 15-16 ounce weight interval omitted of 20.1 cents per pound (Table
25 6, Line 2). The weighted regression adjusted for total pounds produces an estimated cost per

^{42/} Weighted regression is a statistical procedure whereby data points are given statistical weights based upon a causative factor. The effect is to apply greater value to those data points which have the greater influence.

1 pound of 17.9 cents per pound (Table 6, Line 3b) which is 41.7 percent less than Witness Daniel's
2 original estimate and 10.9 percent less than Witness Daniel's estimate with the 15-16 ounce weight
3 interval omitted.

4 In my revised analysis, the implicit statistical weighting is based on pounds within a weight
5 interval versus the volume within a weight interval utilized by Witness Daniel. Exhibit MOAA,
6 ET AL.-RT-1B shows that, for ECR mail the 4.0 - 5.0 ounce weight interval contains the most
7 weight (848.9 million pounds) while the 15.0 - 16.0 ounce interval contains the least weight (12.8
8 million pounds). Thus, the relationship of the largest data to smallest is a multiple of 66.3 (848.9
9 million ÷ 12.8 million). The results of this reduction of the multiplier from 502 to 66.3 produces
10 a regression that is much closer to having equal statistical weights amongst the weight intervals.^{43/}

11 **G. IMPACT OF THIN AND**
12 **NON-MAIL HANDLING TALLIES**

13 Witness Tye criticizes Witness Daniel for utilizing data with a limited number of tallies for
14 a weight interval (i.e., "thin" tallies). Witness Haldi also criticizes Witness Daniel for the
15 methodology she used to assign costs related to non-mail handling tallies to weight increments.
16 As I will discuss, both sets of criticisms are misplaced.

17 Witness Daniel's methodology for estimating the unit costs divides total costs for a subclass
18 of mail by the total number of pieces for that subclass. To arrive at total cost for each subclass,
19 Witness Daniel summed the aggregate cost for each weight-interval within that subclass. Summing
20 data across all weight intervals implicitly assigns equal statistical weight to each weight-interval

^{43/} A similar multiple also applies to Regular mail.

1 even though the number of tallies within the weight intervals may be dramatically different. In
2 other words, a weight interval which is based on a few tallies is assumed to be as equally
3 important as a weight interval based on a large number of tallies.

4 The data utilized in my restated regression analysis however eliminates the reliance on those
5 weight intervals with tallies that have less observations through statistical grouping.^{44/} As shown
6 in Exhibit MOAA, ET AL.-RT-1D, the majority of the data points are grouped near the origin.
7 Included in this grouping are the data from the weight intervals with the lowest number of tallies
8 (i.e., weight intervals greater than 5 ounces). Statistically grouping the weight intervals with the
9 lowest number of tallies with those with largest number of tallies overcomes the impact on the
10 overall analysis from those weight intervals which have fairly thin tallies.

11 In contrast to Witness Daniel's model, the weight interval in my analysis that is the furthest
12 from the origin is the 0 - 0.5 ounce weight interval which is shown as Data Point B in Exhibit
13 MOAA, ET AL.-RT-1D. As Witness Daniel's supporting documentation shows, the 0 - 1.0 ounce
14 weight interval has the largest number of tallies and the greatest aggregate costs.^{45/} By developing
15 the data as shown in my analysis, the data with the fewest tallies are grouped closely together.
16 This eliminates the concern raised by Witness Tye and Witness Haldi regarding thinness of tallies
17 and creates a more explanatory result.

^{44/} There is a key distinction between grouping data as I do here and combining data as witness Daniel did in her study. Witness Daniel combined and therefore lessened the number of data points (groups) in her study which dropped the explanatory value of the data. My statistical grouping of the data did not eliminate or reduce the number of weight intervals studied.

^{45/} Tr. 4/1344.

1 Witness Haldi asserts that the USPS' allocation of costs from non-mail handling tallies
2 systematically understates weight-related costs. Witness Haldi states:

3 It seems completely inappropriate to use direct tallies from individual piece-
4 handling operations to distribute to weight increment the costs associated with
5 some, if not all, of the not handling tallies. The effect of weight will be
6 systematically understated.^{46/}

7 He bases his assertion on two underlying and unstated assumptions:

- 8 1. That USPS equipment and personnel are always at full utilization and have no excess
9 capacity; and,
10 2. All non-mail handling associated costs are driven by weight.

11 I discuss below why each of Witness Haldi's assumptions are erroneous and why the USPS'
12 allocation of non-handling tallies is correct.

13 Witness Haldi first assumes that all USPS equipment and personnel have no excess or idle
14 capacity. In the hypothetical example he provides in his testimony, Witness Haldi asserts that as
15 the weight of mail increases, the amount of equipment required to handle that mail increases and
16 in turn, the cost of moving that equipment (both empty and loaded) also increases.^{47/} Witness
17 Haldi's assumption only holds true if all assets, including personnel, are at full capacity. If the
18 assets are not at full capacity, then a larger amount of work may be performed without incurring
19 additional costs.

^{46/} Tr. 32/15833.

^{47/} Tr. 32/15832.

1 A simple example will illustrate this point. Assume that one USPS employee within a
2 processing center was assigned to collect empty mail hampers and that the employee, when fully
3 utilized, could move one hundred (100) empty hampers per hour.^{48/} If the processing center was
4 processing twenty-five (25) empty hampers per hour, the one employee assigned to move empty
5 hampers would be 25 percent utilized (25 empty hampers ÷ 100 hamper capacity). Next, assume
6 that the USPS receives an additional batch of 2 ounce flats that produce fifty (50) empty hampers
7 per hour. In total, the plant would now produce seventy-five (75) empty hampers per hour (25
8 for the first batch and 50 for the second batch). However, the plant would still need only the one
9 employee to move empty hampers because he is only utilizing 75 percent of his capacity (75
10 empty hampers ÷ 100 hamper capacity).

11 Witness Haldi's theory assumes that the plant would incur a threefold increase in non-mail
12 handling associated costs when the output for the empty hamper increased from 25 to 75.
13 However, as the example shows, because the plant was not fully utilized, it could absorb the extra
14 output without incurring additional costs. Therefore, no additional non-mail handling costs are
15 incurred.

16 Witness Haldi next assumes that all non-mail handling costs are driven by weight. This is
17 not true as shown by the USPS' Witness Van-Ty-Smith. In her testimony, Witness Van-Ty-Smith
18 describes some examples where a non-mail handling tally can occur:

^{48/} For this example, I utilize an employee moving empty hampers for the reason that if he were tallied, he would be recorded in a non-mail handling activity.

1 When not handling mail, the employee may be observed to be between handlings
2 at the instant of observation, monitoring the operation of the equipment, on the
3 way to obtain empty equipment, on break, or performing incidental administrative
4 duties, to cite a few examples.^{49/}

5 Obviously many, if not all, of the instances cited by Witness Van-Ty-Smith are not affected
6 by the weight of a piece of mail (e.g., break time) thus not all non-mail handling costs are driven
7 by mail weight. Given that mail weight is not the driving cost factor as Witness Haldi asserts, the
8 issue becomes the determination of the appropriate basis to distribute non-mail handling tallies to
9 weight intervals for which no weight information is contained. In my opinion, the USPS addresses
10 this issue correctly when it distributes the cost for non-mail handling tallies based on the
11 distribution of mail handling tallies.

12 **H. SUMMARY**

13 In summary, the criticisms raised by Witnesses Tye and Haldi related to the underlying data
14 used in Witness Daniel's study of the impact on costs due to changes in weight (i.e., LR-92) have
15 been addressed in this proceeding. In my opinion, the underlying cost and weight data in LR-92
16 are reliable for use in evaluating if the USPS' proposed rate structure, including the proposed per
17 pound portion of the rates for mail above the breakpoint.

^{49/} Van-Ty-Smith, page 13.

1 **VII. COST DIFFERENTIAL FOR LETTERS AND FLATS**

2 The USPS' rate proposal for ECR mail includes a rate differential between piece-rated^{50/}
 3 letters and flats prepared at the high density or saturation level. To support the rate differential,
 4 the USPS developed the mail processing and delivery costs associated with each type of mail and
 5 preparation level.^{51/} Table 7 below compares the proposed rate differential between letters and flats
 6 with the cost differential calculated by the USPS:

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Item (1)	Cents Per Piece		
	Letters (3)	Flat (4)	Difference ^{1/} (5)
1. Mail Processing and Delivery Costs ^{2/}			
a. High Density	5.693	5.973	0.280
b. Saturation	4.781	5.259	0.478
2. USPS Rate Proposal ^{3/}			
a. High Density	15.2	15.4	0.2
b. Saturation	14.3	14.8	0.5
^{1/} Daniel, page 29.			
^{2/} Daneil, page 29.			
^{3/} Moeller, page 28. Excludes destination entry discounts.			

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22 As shown in Table 7 above, the USPS calculated a cost differential between letters and flats
 23 of 0.280 cents per piece for high density mail and 0.478 cents per piece for saturation mail (Table
 24 7, Line 1). In its rate proposal, the USPS proposed a rate differential between letters and flats of

^{50/} This reflects ECR mail that weighs less than 3.3 ounces, i.e., mail below the breakpoint.

^{51/} The USPS' unit costs for delivery were developed in USPS LR-I-95 ("LR-95") and the unit costs for mail processing were developed in USPS LR-I-96 ("LR-96").

1 0.2 cents per piece for high density mail and 0.5 cents per piece for saturation mail (Table 7, Line
2 2).

3 Witness Haldi asserts that within ECR mail, the USPS "data systems systematically overstate
4 the cost of letters while the cost of flats is correspondingly understated."^{52/} He bases his testimony
5 on his belief that there exists a mismatch between:

6 (i) the way the USPS' Revenue, Pieces and Weight ("RPW") system records revenue, volume
7 and weight; and,

8 (ii) the way that the IOCS develops mail processing and city carrier in-office costs.

9 According to Witness Haldi, this mismatch causes the IOCS to misclassify "heavy" letters
10 (i.e., letter-shaped pieces that weigh in excess of 3.3 ounces) as nonletters for cost purposes and
11 causes the IOCS to misclassify letter-shaped pieces with detached address labels ("DAL") as letters
12 instead of flats. Witness Haldi asserts that this "mismatch biases the letter/nonletter cost
13 differentials used for ratemaking within all four Standard (A) subclasses."^{53/} When he adjusts his
14 costs for ECR mail for the claimed errors related to heavy weight letters, Witness Haldi calculates
15 an additional cost differential between letters and flats of \$0.291 cents per piece related to "heavy"
16 letters. Witness Haldi's adjustment for DAL letters increases his calculation of the letter/flat
17 differential by 0.175 cents per piece. His total cost adjustment equals 0.466 cents per piece.^{54/} He
18 then proposes to increase the letter/flat differential by his claimed cost differential of 0.466 cents

^{52/} Tr. 32/15765.

^{53/} Tr. 32/15765.

^{54/} Tr. 32/15818.

1 per piece resulting in a letter/flat differential in rates of 0.7 cents per piece for high density mail
2 and 0.9 cents per piece for saturation mail^{55/}.

3 My analysis of Witness Haldi's adjustment to the USPS' letter/flat differential is discussed
4 under the following topics:

- 5 A. Withdrawal of the DAL Adjustment
- 6 B. Witness Haldi's Methodology for Heavy Letters
- 7 C. USPS' Use of Correct Data
- 8 D. Summary

9 **A. WITHDRAWAL OF THE DAL ADJUSTMENT**

10 At the time of the oral presentation of his testimony, Witness Haldi revised his calculations
11 to withdraw his endorsement of the letter/flat differential associated with DAL letters, i.e., 0.175
12 cents per piece of the total differential that he calculated of 0.466 cents per piece.^{56/} To reflect
13 this change, Witness Haldi made two errors. First, Witness Haldi stated only that Table 7 of his
14 testimony be corrected.^{58/} He should have corrected the rates and percentages in Table 2 and
15 Table 3 of his testimony which are also affected by his withdrawn testimony.^{57/} Second, in revising
16 his proposed rates located in Table 7 of his testimony, Witness Haldi indicated that the piece rates
17 for flat high density and saturation mail should be reduced by 0.1 cent.^{58/} However, in adjusting
18 the high-density and saturation ECR rates for flats without making an adjustment to any of the

^{55/} Tr. 32/15772 and Tr. 32/15781. The saturation mail adjustment equals 0.9 cents per piece instead of 1.0 cents per piece due to rounding.

^{56/} Tr. 32/15854.

^{57/} Tr. 32/15781 and Tr. 32/15782.

^{58/} Tr. 32/15855.

1 other rates, Witness Haldi's rate structure is no longer revenue neutral. Stated differently, Witness
2 Haldi's revised proposal will recover less in revenues than under his original proposal.

3 **B. WITNESS HALDI'S METHODOLOGY**
4 **FOR HEAVY LETTERS**

5 In order to correct for the assumed mismatch between the USPS' RPW and IOCS recording
6 of mail volumes and costs, Witness Haldi proposes an adjustment methodology which redistributes
7 costs between shape-based categories.^{59/} However, Witness Haldi's methodology does not follow
8 the USPS' procedure to identify shape based differences and contains a conceptual error. These
9 shortcomings in his methodology produce inaccurate results and fail to correct the problem that
10 he is addressing.

11 **1. Comparison with USPS' Procedure**

12 The USPS identified the cost differences between letters and flats based on an analysis of
13 delivery costs as shown in LR-95 and mail processing costs as shown in LR-96. Witness Haldi's
14 analysis relies on Witness Daniel's base data from the cost-weight study included in LR-92.^{60/}
15 From the base data in LR-92, Witness Haldi concludes that the overall letter/flat differential,
16 before any adjustment for all ECR mail, equals 0.542 cents per piece.^{61/} Several problems exist
17 with the starting point in Witness Haldi's methodology.

18 First, the data in LR-92 includes more than mail processing and delivery costs (e.g.,
19 transportation costs). Therefore, the letter/flat cost differential in Witness Haldi's analysis reflects

^{59/} Tr. 32/15815.

^{60/} Tr. 32/15815.

^{61/} Tr. 32/15818.

1 cost components not considered in the USPS' analysis or rate proposal. Second, the LR-92 data
2 was intended to show cost differences by weight interval.

3 The data in LR-92 does not contain any of the mismatch that Witness Haldi's claims because
4 the detailed data for letter-shaped mail identifies both the costs and volumes for heavy letters.^{62/}
5 Witness Haldi's assumes that 2.6 percent of the costs for all letters is applicable to his "heavy"
6 letter adjustment. Then, he shifts this average costs to letters, but does not shift the corresponding
7 volumes for "heavy" letters that is also shown in LR-92. This procedure is, therefore, inaccurate.

8 Third, Witness Haldi's base cost differential (before he begins his adjustments) for all mail
9 equals 0.542 cents per piece ^{63/} which is larger the cost differential calculated by the USPS for
10 either high density or saturation mail (see Line 1 of Table 7 above). Because Witness Haldi has
11 utilized average costs for letter and flat mail (at all weight intervals), his base starting point reflects
12 the cost differences associated with mail other than high density and saturation mail, e.g., cost
13 differences due to the different mix of dropshipping. The USPS' analysis in LR-95 and LR96
14 specifically isolated the difference to only shape-related cost differences. For example, Witness
15 Daniel recognized that the cost difference caused by dropshipping had to be eliminated "so that the
16 effect of finer depth of sort can be calculated in the absence of dropshipping"^{64/}. Witness Haldi
17 has made no such adjustment and, therefore, his cost difference between letters and flats includes
18 the average cost difference due to dropshipping.

^{62/} Based on the improper comparison of the letter volume data utilized by Witness Daniel and the USPS' Witness Moeller, Witness Haldi implies that the percentage of letters above the breakpoint might be as high as 17.7 percent (Tr. 32/15814). Based on the LR-92 data, only 0.9 percent of the mail falls into the 3.5 ounce to 16.0 ounce range.

^{63/} Tr. 32/15818, Line 3 of Table A-2.

^{64/} Daniel, page 28.

1 In summary, Witness Haldi's basic unit costs for his analysis are flawed. The starting point
2 for Witness Haldi's analysis has not followed the USPS' procedure. The basic cost differential
3 he develops of 0.542 cents per piece do not reflect the differences solely related to shape and,
4 therefore, any adjustments he makes to the unit costs are invalid.

5 **2. Conceptual Error**

6 The purpose of examining the difference in costs between letters and flats is to determine if,
7 all other components are held constant, the shape of a piece of mail causes a difference in its
8 cost.^{65/} Witness Haldi's methodology utilizes the USPS' volumes, but shifts his calculation of costs
9 for "heavy" letters from letters to flats. As shown below, his procedure is conceptually incorrect
10 and creates further misstatement of costs. If a mismatch in volume and cost data does occur, the
11 proper adjustment for purposes of determining the impact of shape on costs is to reclassify the
12 piece count to match the correct shape-based costs. A simple hypothetical example of two mailings
13 shown in Table 8 below demonstrates the impact from reclassifying costs rather than reclassifying
14 piece count. For this example, assume a mailing consists of letter-shaped mail with 1,000 pieces
15 weighing less than 3.3 ounces and 200 pieces of "heavy" letters that weigh more than 3.3 ounces
16 (see Line 1a of Table 8 below). Next, assume a second mailing of the same number of pieces,
17 consisting entirely of flat-shaped mail which has the same number of pieces and weight (Line 1b
18 of Table 8 below). Further assume that the costs for the letter and flat mail are the same. Except
19 for the fact that one mailing is letter-shaped and the other is flat-shaped, the mailings are identical

^{65/} As shown above, Witness Haldi's analysis accounts for cost differences from more than shape.

- 1 in every manner including the average cost per piece (10 cents per piece for both letters and flats
- 2 as shown in Column (6) of Table 8).

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	Pieces ^{1/} (2)	Costs ^{2/} (3)	Pieces ^{1/} (4)	Costs ^{2/} (5)	
	1. Assumed Mailing (Correct Data)				
a. Letters-Shaped Mail	1000	\$90	200	\$30	\$0.100
b. Flat-Shaped Mail	<u>1000</u>	<u>\$90</u>	<u>200</u>	<u>\$30</u>	<u>\$0.100</u>
c. Difference (L1a - L1b)	xxx	xxx	xxx	xxx	\$0.000
2. Assumed USPS Method of Recording Mailings (Without Correction)					
a. Letter-Shaped Mail	1000	\$90	0	\$30	\$0.120
b. Flat-Shaped Mail	<u>1000</u>	<u>\$90</u>	<u>400</u>	<u>\$30</u>	<u>\$0.086</u>
c. Difference (L2a - L2b)	xxx	xxx	xxx	xxx	\$(0.034)
3. Haldi Adjustment to Correct Mismatch Issue					
a. Letter-Shaped Mail	1000	\$90	0	\$0	\$0.090
b. Flat-Shaped Mail	<u>1000</u>	<u>\$90</u>	<u>400</u>	<u>\$60</u>	<u>\$0.107</u>
c. Difference (L3a - L3b)	xxx	xxx	xxx	xxx	\$0.017
^{1/} As recorded in RPW.					
^{2/} As recorded in IOCS.					
^{3/} [Column (3) + Column (5)] ÷ [Column (2) + Column (4)].					

24 Line 2 of Table 8 illustrates the mismatch assumed by Witness Haldi without any correction
25 to classify the pieces for the two mailings.^{66/} Line 2 of Table 8 assumes that the USPS' RPW

^{66/} Witness Daniel's analysis of the cost difference between the mail processing and delivery costs of letters and flats was constructed in a way that effectively reflects the unit costs on Line 1 of Table 8.

1 system categorizes letter-shaped pieces over 3.3 ounces as flats (Table 8, Column (4), Line 2b).
2 Line 2, Column (5) of Table 8 assumes that the IOCS recognizes the distinction between "heavy"
3 letters and flats by placing the costs into two separate categories. Because the two reporting
4 systems theoretically handle this heavy letter mail in a different manner, there is, according to
5 Haldi, a mismatch in piece count and cost. The alleged mismatch, under Witness Haldi's theory,
6 produces an overstatement in the cost per piece for letters and an understatement in the cost per
7 piece for flats. The total difference in this example equals 3.4 cents per piece (Column (6), Line
8 2c).

9 Witness Haldi's proposed methodology for adjusting the USPS classification problem is to
10 move the shape-based costs that are mismatched and leave the piece count in its misclassified
11 position.^{67/} Therefore, as shown in Line 3 of Table 8 above, Witness Haldi would reclassify the
12 costs for all letter-shaped pieces over 3.3 ounces to the flat-shaped cost category (shifting the \$30
13 in costs from Line 2a to Line 3b).^{68/} Witness Haldi's methodology results in an overstatement of
14 the average cost of the flat-shaped pieces and an understatement in the average cost of the letter-
15 shaped pieces (Column (6), Line 3). Thus, Witness Haldi's approach does not result in the correct
16 answer (i.e., no difference in the average cost per piece for the two sample mailings), but in fact,
17 now leads to an overstatement of flat-shaped average cost and an understatement for the letter-
18 shaped mail. In other words, his adjustment has compensated for his perceived error (which in

^{67/} As discussed above, the data relied upon by Witness Haldi did identify the letter volumes for the claimed "heavy" letters so he could have moved the volumes for "heavy" letters.

^{68/} Witness Haldi did not know the actual costs for these pieces but rather imputed the average costs of all letters to the "heavy" letters (Tr. 32/15818).

1 actuality does not exist in the USPS' methodology) in such a way as to cause the opposite effect
2 on the USPS' data.

3 **C. USPS' USE OF CORRECT DATA**

4 Witness Haldi asserts that this mismatch was reflected in the data in LR-92 utilized by Witness
5 Daniel. Even if Witness Daniel had relied on LR-92 to calculate the cost differential between
6 letters and flats, the data in LR-92 is not based on the RPW system as claimed by Witness Haldi.
7 In other words, the data source that Witness Haldi claims reflects the mismatch was not used by
8 the USPS.

9 As Witness Daniel explained in her response to interrogatory ADVO/USPS-T28-1, she did
10 not rely on RPW volumes for the analysis in LR-92, but utilized PERMIT volume information.

11 Witness Daniel states:

12 The letter and nonletter volumes in USPS-LR-I-92 are derived in USPS LR-I-102.
13 These volumes are based on the processing category recorded in PERMIT, which
14 should correspond to the DMM definition of shape.^{62/}

15 In response to a question posed by the Office of the Consumer Advocate ("OCA") during oral
16 cross examination on April 12, 2000, USPS' Witness Mark E. Ramage confirms that the mismatch
17 hypothesized by Witness Haldi related to LR-92 has been corrected in the USPS data:

18 This question is directed towards exploring the feasibility of adjusting IOCS data
19 so that it is consistent with shape definition used for volume data for Standard A
20 letters. An alternative approach would be to produce volume estimates for
21 Standard A letters that are consistent with the IOCS shape definitions. My

^{62/} Tr. 4/1202.

1 understanding is that witness Daniel employed this latter approach to ensure
2 consistency between the costs and volumes. See Tr. 4/1202. Since witness
3 Daniel relies on PERMIT volumes corresponding to the Domestic Mail Manual
4 ("DMM") shape definitions, she uses consistent shape definitions for her volume
5 and cost estimates. The IOCS shape definitions and the DMM shape definitions
6 both define letter shape according to the same physical dimensions of the piece.
7 See F-45, page 12-8, and C050.2.0 of the DMM 55.^{70/} (emphasis added)

8 Witness Ramage's statement shows that any mismatch that had existed was corrected by the
9 USPS. Even if LR-92 was to be utilized to calculate the letter/flat cost differential (which it was
10 not), no adjustment is required.

11 **D. SUMMARY**

12 Witness Haldi claims that the USPS overstates the cost of letters while understating the cost
13 of flats. His revised cost difference between letters and flats equals 0.297 cents per piece. Witness
14 Haldi has relied on the wrong base data and, furthermore, his methodology contain a conceptual
15 error. These flaws demonstrate that his analysis is not valid. Therefore, the USPS' results are
16 correct.

^{70/} Response of the United States Postal Service Witness Ramage to question of the Office of the Consumer Advocate During Cross-Examination filed 04/18/2000.

1 **VIII. COST COVERAGE FOR STANDARD (A) AND FIRST CLASS MAIL**

2 Witness Clifton proposes to reduce the cost coverage ratios of First Class and First Class
3 Presort mail by 1.3 percentage points and 7.0 percentage points respectively.^{11/} To balance his
4 proposed reductions in the First Class and First Class Presort cost coverage ratios, Witness Clifton
5 proposes to increase the cost coverage ratio for Standard (A) Regular mail by 9.3 percentage
6 points (from the USPS' proposed coverage 132.9 percent to 142.2 percent) and the ratio for
7 Standard (A) ECR mail by 5.6 percentage points (from the USPS' proposed coverage ratio of
8 208.8 percent to 214.4 percent). Witness Clifton bases his changes in cost coverage on his
9 assertion that the cost coverage for First Class mail has become highly discriminatory relative to
10 Standard (A) mail.^{12/}

11 This section of my testimony discusses Witness Clifton's justification of his changes to the
12 cost coverages for First Class and Standard (A) mail and explains why his proposal is not
13 supported by the data in this proceeding or by PRC precedent.

14 My review is discussed under the following topics:

- 15 A. Changes in First Class Presort Cost Coverage
- 16 B. Changes in ECR Cost Coverage
- 17 C. Contribution to Institutional Costs
- 18 D. Summary

^{11/} Tr. 26/12457.

^{12/} Tr. 26/12463.

1 **A. CHANGES IN FIRST CLASS**
2 **PRESORT COST COVERAGE**

3 Witness Clifton asserts that First Class Presort mail is being unfairly burdened in its allocation
4 of institutional costs.^{73/} In his testimony, Witness Clifton states:

5 While First Class workshared mail is supposed to be part of a single First Class
6 letters subclass, it does appear unmistakably that in the growing disparate trends
7 between cost coverages for single piece versus workshared mail in the allocation
8 of institutional costs, workshared mail is being singled out in an arbitrary and
9 almost punitive way.^{74/}

10 In support of his assertion, Witness Clifton provides a comparison of implicit cost coverage
11 ratios for First Class and Standard (A) mail for the years 1994-1999.^{75/} While it is clear that the
12 cost coverage for First Class Presort mail has increased in the last five years, Witness Clifton's
13 comparison does not demonstrate the cause of the increase in the coverage ratios.

14 By definition, cost coverage for a given subclass of mail is the ratio of revenues to volume
15 variable costs for that subclass of mail. Increases in cost coverages, therefore, can occur either
16 through an increase in revenues, a decrease in costs, or a combination of both. Table 9 below
17 summarizes, for 1994 and the Test Year After Rates ("TYAR") analysis presented by the USPS
18 in this proceeding, the average revenue, costs and cost coverage ratio for First Class Presort
19 mail.^{76/}

^{73/} Tr. 26/12460.

^{74/} Tr. 26/12460.

^{75/} Tr. 26/12459.

^{76/} I am aware of the USPS' supplemental testimony regarding the update of costs to reflect 1999 base year data. For comparability with Witness Clifton, I have continued to utilize the same data as presented by Witness Clifton.

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Table 9
Comparison of Changes in
Mail Revenues and Volume Variable Costs Per Piece --First Class Presort

Item	1994 ^{1/}	TYAR ^{2/}	Percent Change ^{3/}
(1)	(2)	(3)	(4)
1. Revenue--Cents Per Piece	26.1	28.15	7.9%
2. Volume Variable Costs--Cents Per Piece	<u>11.7</u>	<u>10.68</u>	<u>-8.7%</u>
3. Contribution -Cents Per Piece	14.4	17.47	21.3%
4. Cost Coverage Ratio (L1 ÷ L2)	223%	264%	18.4%

^{1/} Fiscal Year 1994 Cost and Revenue Analysis

^{2/} USPS-T-32, Exhibit USPS-32B, pages 1-2.

^{3/} [Column (3) / Column (2)] - 1.

14 Between 1994 and the TYAR, the cost coverage ratio for First Class Presort mail rose 18.4
15 percent from 223 percent ^{III/} to 264 percent (Table 9, Line 4). While revenue per piece increased
16 by 7.9 percent during the study period (Line 1, Column (4)), the volume variable costs decreased
17 at a rate of 8.7 percent (Line 2, Column (4)). In other words, approximately 50 percent of the
18 increase in the cost coverage for First Class Presort mail is due to decreased costs.

19 The PRC has stated in previous decisions that increases in cost coverage due to decreases in
20 costs are not a sign of an unjust burden placed on a particular subclass of mail. In Docket No.
21 MC95-1, the PRC stated:

^{III/} The data in Table 9 for 1994 is based on the USPS' CRA. Witness Clifton's Table 12 shows a coverage ratio of 219 percent.

1 "...in every situation in which some mail allows the Postal Service to avoid costs,
2 the implicit cost coverage for that mail will be higher than the implicit coverage
3 for otherwise similar mail. The Commission believes that this is just."^{28/}

4 The logic of the PRC's decision in Docket No. MC95-1 applies in this proceeding. The
5 increase in First Class Presort mail cost coverage has come about in large part, due to the lower
6 costs. Therefore, because the cost coverage has increased for First Class Presort mail, this does
7 not mean, in light of the PRC decision in Docket No. MC95-1, that this particular subclass of mail
8 is being singled out for discriminatory rate increases.

9 **B. CHANGES IN ECR COST COVERAGE**

10 Witness Clifton portrays the USPS' proposed changes in rates as unfairly placing a greater
11 burden on First Class mailers who have invested heavily in technology to reduce cost:

12 This (disparate trends between cost coverages for single piece versus workshared
13 mail) is unfair, inequitable, and discriminatory treatment towards the mailers
14 whose substantial investments and ongoing dedication now move 45 billion pieces
15 of First Class Mail through automated processing technology annually.^{29/}

16 An examination of data for another subclass of mail (i.e., ECR mail) that relies heavily on
17 technology reveals that the contributions from First Class Presort mail are not excessive.

18 Table 10 below, which follows the same format as Table 9, summarizes the average revenue
19 per piece, costs per piece and contribution per piece for ECR mail for 1994 and TYAR.

^{28/} Docket No. MC95-1 decision, pages III-28.

^{29/} Tr. 26/12460.

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Table 10
Comparison of Mail Revenues and Volume Variable Cost Per Piece --ECR

Item	1994 ^{1/}	TYAR ^{2/}	Percent Change ^{3/}
(1)	(2)	(3)	(4)
1. Revenue--Cents Per Piece	13.2	15.72	19.1%
2. Volume Variable Costs--Cents Per Piece	<u>6.3</u>	<u>7.53</u>	<u>19.5%</u>
3. Contribution -Cents Per Piece	6.9	8.2	18.8%
4. Cost Coverage Ratio (L1 ÷ L2)	210%	209%	(-)1%

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^{1/} Fiscal Year 1994 Cost and Revenue Analysis
^{2/} USPS-T-32, Exhibit USPS-32B; USPS-LR-I-166, WP 1, page 24.
^{3/} [Column (3) / Column (2)] - 1.

13 A comparison of Table 9 and Table 10 illustrates two key points. Because the revenues and
14 costs changed at approximately the same level, the coverage ratio for ECR mail decreased 1
15 percent between 1994 and TYAR. However, ECR mail has a much larger increase in revenues
16 than that borne by First Class Presort mail. ECR revenue per piece equaled 13.2 cents per piece
17 in 1994 (Table 10, Line 1). Under the USPS proposed rate structure, ECR revenue per piece
18 increases to 15.7 cents per piece for TYAR (Table 10, Column (3), Line 1), an increase of 19.1
19 percent (Table 10, Column (4), Line 1). In contrast to the 19.1 percent increase for ECR mail,
20 First Class Presort mail revenue per piece increased 7.9 percent over the same time period (Table
21 9, Column (4), Line 1), a difference of 11.2 percent.

22 Second, the unit contribution for ECR mail increased by 18.8 percent, over the 1994 to TYAR
23 time period (Table 10, Column (4)). As Table 9 shows, the unit contribution for First Class
24 Presort mail increased 21.3 percent between 1994 and TYAR (Table 9, Column (4), Line 3).

1 Therefore, the change in the contribution is approximately the same for First Class and ECR mail.
 2 The fact that ECR mail will maintain a percentage change in unit contribution essentially equal to
 3 that of First Class Presort mail while also seeing a substantial increase in unit revenue compared
 4 to First Class Presort mail is a clear indication that the First Class Presort mail is not receiving
 5 discriminatory treatment when compared to ECR mail.^{80/}

6 **C. CONTRIBUTION TO INSTITUTIONAL COSTS**

7 Witness Clifton asserts that the cost coverage ratios for First Class mail and Standard (A) mail
 8 should be adjusted because First Class mailers contribute an excessive portion to the USPS
 9 institutional costs. He states:

10 There is an additional reason why the Commission should adjust the cost
 11 coverages along the lines I suggest. The contribution the First Class letter mail
 12 subclass makes to USPS institutional costs has simply gotten out of hand over the
 13 1990s.^{81/}

14 Although First Class mail has seen an increase in contribution, Standard (A) Regular mail has
 15 seen an even greater increase to contribution. Table 11 below, which is based Table 13 of Witness
 16 Clifton compares the absolute and relative change in contributions to institutional costs from First
 17 Class letter mail and Standard (A) Regular mail for the time period 1994 to 1999^{82/}. The First
 18 Class letter mail subclass has shown a greater absolute change in contribution over this time period
 19 than has Standard (A) Regular mail. This absolute change is to be expected given the greater

^{80/} Witness Tye also asserts that the proposed change in rates unfairly places a greater burden on First Class mailers (Tr. 30/14731). Like Witness Clifton, Witness Tye does not look at the relative change in unit contribution and therefore does not recognize that ECR and First Class mail have received an essentially equal relative increase in unit contribution.

^{81/} Tr. 26/12460.

^{82/} This is the same period Witness Clifton utilizes in Table 13 of his testimony.

1 volume in First Class mail as well as Standard (A) mailers greater use of destination entry
2 discounts which lower overall revenue and costs.

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Table 11
Comparison of Contribution to Institutional Costs As Shown by Clifton

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Mail Class	Contribution (000) ^{1/}		% Change
	1994 (2)	1999 (3)	1994-1999 ^{2/} (4)
1. First Class Letter	\$11,410	\$16,640	45.8%
2. Standard (A) Regular	1,211	2,084	72.1
3. Total Mail Service	17,284	24,265	40.4

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^{1/} Clifton, Table 13 (Tr. 26/12461).
^{2/} [Column (3) ÷ Column (2)] - 1.

14 As shown in Table 11 above, First Class letter mail has seen a 45.8 percent (Table 11,
15 Column (4), Line 1) increase in its contribution to institutional costs for the 1994-1999 time
16 period. This is close to the USPS overall 40.4 percent change (Column (4), Line 3) for the same
17 time span. In contrast, Standard (A) Regular has seen a 72.1 percent increase in its contribution
18 (Table 11, Column (4), Line 2), well above the overall USPS average. To assert that First Class
19 letter mailers have seen discriminatory increases in relative contribution over the 1994-1999 time
20 period disregards the large increase incurred by Standard (A) Regular mailers.

21 **D. SUMMARY**

22 Witness Clifton infers throughout his testimony that First Class mail carries too much of an
23 institutional cost burden and, therefore, cost coverages should be adjusted. He recommends that

1 First Class single piece and First Class Presort mail cost coverages should be lowered and
2 Standard (A) Regular and ECR mail coverages be raised. An examination of the arguments he
3 uses to support his proposed changes reveals that he has disregarded past PRC decisions and
4 utilized data which ignores increases in revenue and contribution for Standard (A) mail. Based
5 on previous PRC decisions and data for Standard (A) mail for the same time period as utilized by
6 Witness Clifton, no basis exists to increase the coverage ratio for Standard (A) mail above the
7 USPS' proposed level.

USPS' Costs and Volumes by Weight Increments -- Regular

	Weight Increments (ounces) (1)	Number of Pieces per Increment 1/ (2)	Weight (Pounds) 1/ (3)	Total Cost (1,000's) 1/ (4)	Inputs used by Ms. Daniel		Inputs for Revised Regression	
					Average Weight Per Piece (ounces) 2/ (5)	Average Cost Per Piece 3/ (6)	Average Pieces Per Pound 4/ (7)	Average Cost Per Pound 5/ (8)
1.	0.0 to 0.5	8,747,091,966	184,280,580	\$1,081,748	0.34	\$0.124	47.47	\$5.870
2.	0.5 to 1.0	11,404,201,293	519,125,736	\$1,455,419	0.73	\$0.128	21.97	\$2.804
3.	1.0 to 1.5	4,792,879,103	367,132,978	\$731,699	1.23	\$0.153	13.05	\$1.993
4.	1.5 to 2.0	2,988,638,371	322,254,136	\$554,328	1.73	\$0.185	9.27	\$1.720
5.	2.0 to 2.5	2,103,443,012	295,055,711	\$403,113	2.24	\$0.192	7.13	\$1.366
6.	2.5 to 3.0	2,549,930,575	441,438,182	\$438,169	2.77	\$0.172	5.78	\$0.993
7.	3.0 to 3.5	2,498,208,591	502,568,111	\$428,771	3.22	\$0.172	4.97	\$0.853
8.	3.5 to 4.0	1,523,657,694	356,425,916	\$492,101	3.74	\$0.323	4.27	\$1.381
9.	4.0 to 5.0	2,192,214,612	608,987,097	\$346,338	4.44	\$0.158	3.60	\$0.569
10.	5.0 to 6.0	1,253,983,750	426,670,168	\$244,717	5.44	\$0.195	2.94	\$0.574
11.	6.0 to 7.0	722,093,403	291,671,566	\$170,430	6.46	\$0.236	2.48	\$0.584
12.	7.0 to 8.0	486,188,828	226,985,241	\$184,911	7.47	\$0.380	2.14	\$0.815
13.	8.0 to 9.0	333,826,177	176,730,047	\$99,212	8.47	\$0.297	1.89	\$0.561
14.	9.0 to 10.0	244,795,395	145,275,303	\$109,578	9.50	\$0.448	1.69	\$0.754
15.	10.0 to 11.0	246,682,929	162,410,751	\$100,045	10.53	\$0.406	1.52	\$0.616
16.	11.0 to 12.0	202,579,432	145,515,879	\$100,442	11.49	\$0.496	1.39	\$0.690
17.	12.0 to 13.0	216,130,522	169,177,817	\$103,269	12.52	\$0.478	1.28	\$0.610
18.	13.0 to 14.0	133,968,247	112,813,257	\$81,984	13.47	\$0.612	1.19	\$0.727
19.	14.0 to 15.0	85,577,382	77,255,918	\$60,035	14.44	\$0.702	1.11	\$0.777
20.	15.0 to 16.0	57,681,913	55,765,086	\$75,061	15.47	\$1.301	1.03	\$1.346

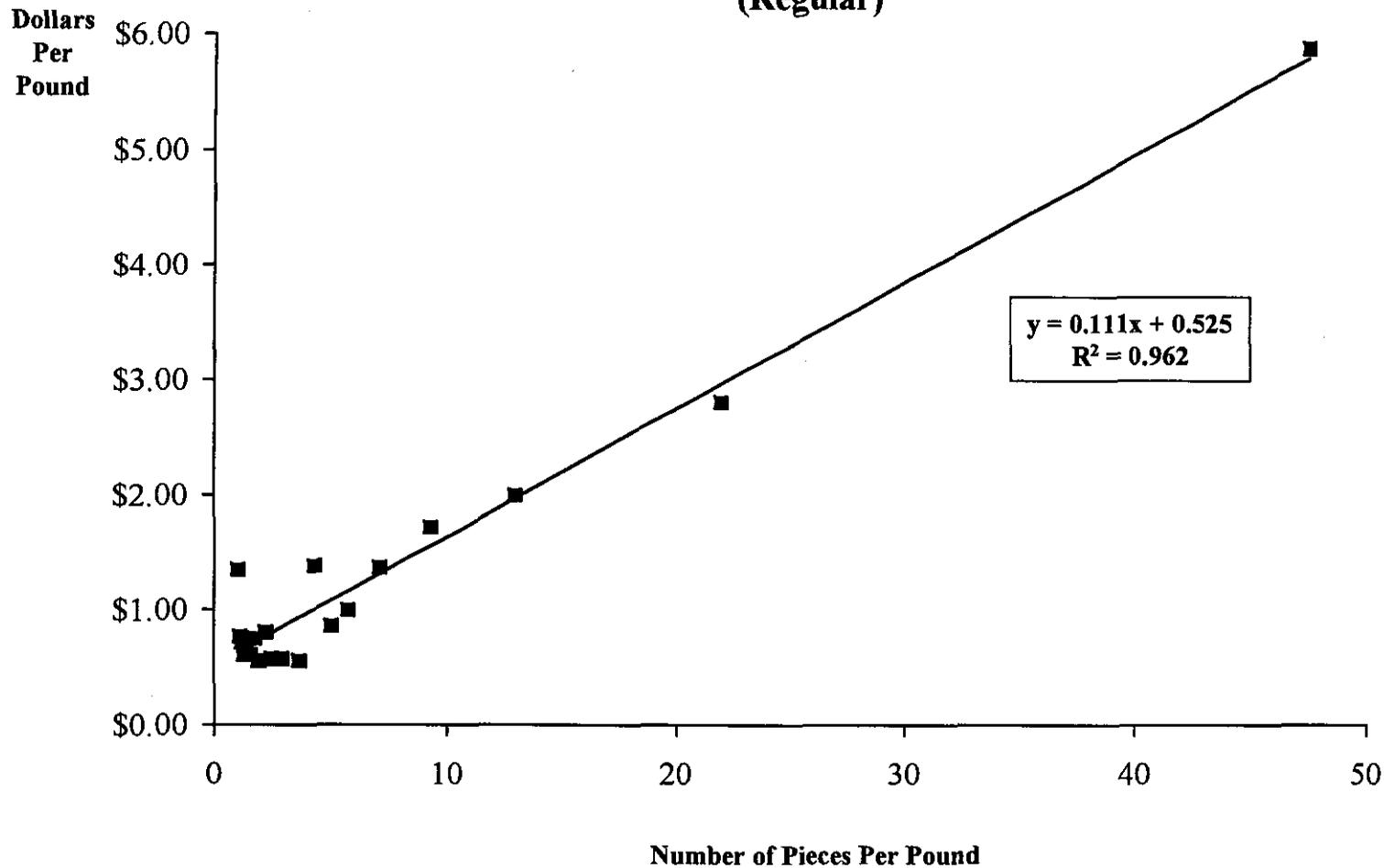
1/ USPS-LR-I-92 sheet Regular all (detailed)**2/** Column (3) ÷ Column (2) x 16 ounces**3/** (Column (4) x 1,000) ÷ Column (2)**4/** Column (2) ÷ Column (3)**5/** (Column (4) x 1,000) ÷ Column (3)

USPS' Costs and Volumes by Weight Increments -- ECR

	Weight Increments (ounces) (1)	Number of Pieces per Increment 1/ (2)	Weight (Pounds) 1/ (3)	Total Cost (1,000's) 1/ (4)	Inputs used by Ms. Daniel		Inputs for Revised Regression	
					Average Weight Per Piece (ounces) 2/ (5)	Average Cost Per Piece 3/ (6)	Average Pieces Per Pound 4/ (7)	Average Cost Per Pound 5/ (8)
1.	0.0 to 0.5	6,567,978,563	135,341,727	\$384,125	0.33	\$0.058	48.53	\$2.838
2.	0.5 to 1.0	5,568,422,818	255,493,988	\$398,526	0.73	\$0.072	21.79	\$1.560
3.	1.0 to 1.5	2,790,971,660	222,825,324	\$212,642	1.28	\$0.076	12.53	\$0.954
4.	1.5 to 2.0	2,901,427,528	323,500,191	\$196,100	1.78	\$0.068	8.97	\$0.606
5.	2.0 to 2.5	3,548,811,635	509,565,386	\$218,277	2.30	\$0.062	6.96	\$0.428
6.	2.5 to 3.0	2,960,135,421	519,324,061	\$204,524	2.81	\$0.069	5.70	\$0.394
7.	3.0 to 3.5	1,875,267,345	385,734,533	\$157,908	3.29	\$0.084	4.86	\$0.409
8.	3.5 to 4.0	1,549,324,284	372,534,646	\$158,875	3.85	\$0.103	4.16	\$0.426
9.	4.0 to 5.0	2,977,269,831	848,935,134	\$213,855	4.56	\$0.072	3.51	\$0.252
10.	5.0 to 6.0	1,342,660,886	464,229,728	\$114,417	5.53	\$0.085	2.89	\$0.246
11.	6.0 to 7.0	699,669,330	288,375,650	\$65,932	6.59	\$0.094	2.43	\$0.229
12.	7.0 to 8.0	371,958,415	176,937,461	\$42,400	7.61	\$0.114	2.10	\$0.240
13.	8.0 to 9.0	201,513,104	109,179,206	\$26,672	8.67	\$0.132	1.85	\$0.244
14.	9.0 to 10.0	78,920,017	47,711,180	\$15,622	9.67	\$0.198	1.65	\$0.327
15.	10.0 to 11.0	74,474,482	49,701,200	\$10,533	10.68	\$0.141	1.50	\$0.212
16.	11.0 to 12.0	33,831,994	24,918,961	\$8,264	11.78	\$0.244	1.36	\$0.332
17.	12.0 to 13.0	32,205,634	25,756,359	\$5,828	12.80	\$0.181	1.25	\$0.226
18.	13.0 to 14.0	25,434,174	21,883,581	\$5,093	13.77	\$0.200	1.16	\$0.233
19.	14.0 to 15.0	17,179,749	16,012,076	\$4,460	14.91	\$0.260	1.07	\$0.279
20.	15.0 to 16.0	13,060,565	12,809,676	\$7,852	15.69	\$0.601	1.02	\$0.613

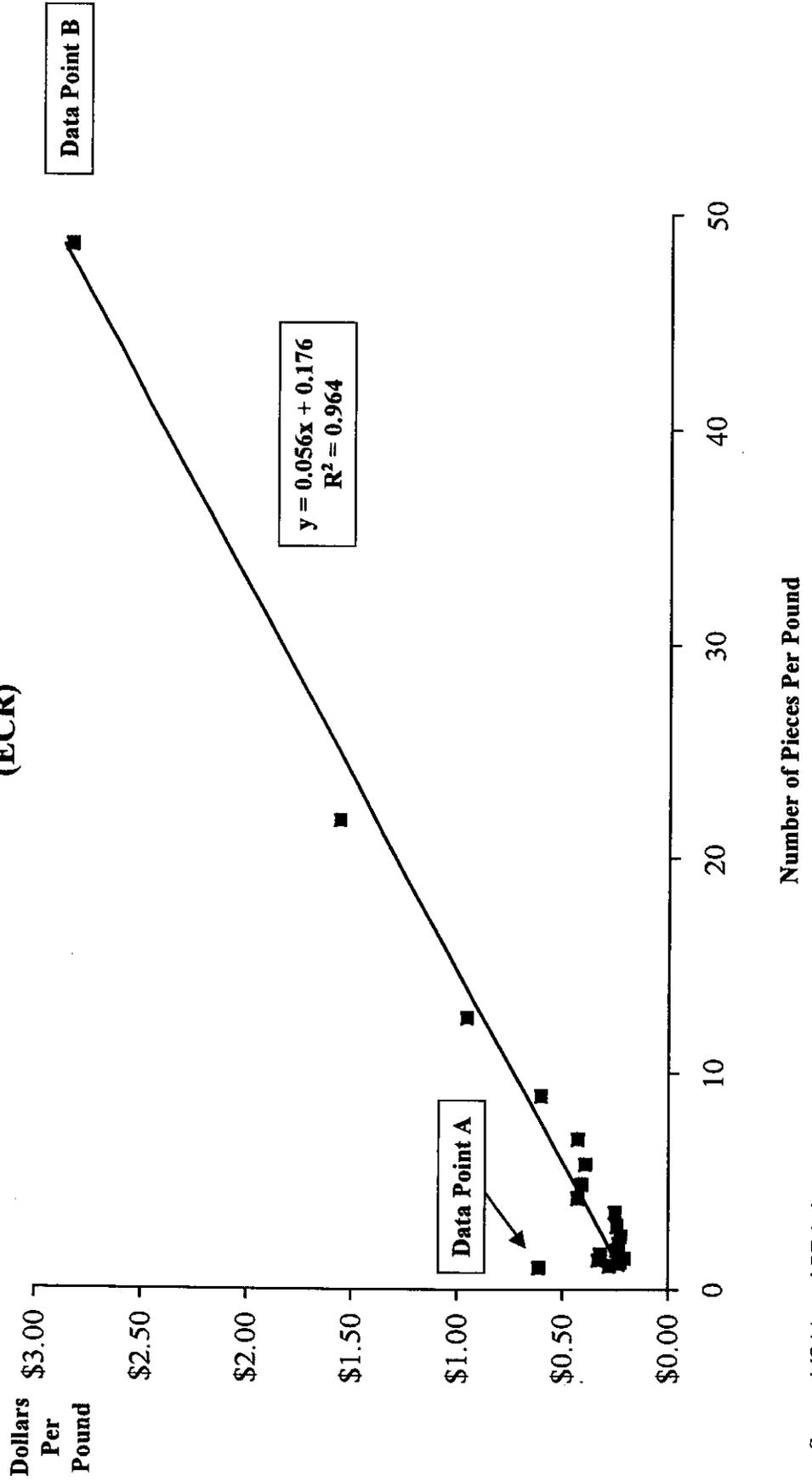
1/ USPS-LR-I-92 sheet ECR all (detailed)2/ Column (3) ÷ Column (2) x 16 ounces3/ (Column (4) x 1,000) ÷ Column (2)4/ Column (2) ÷ Column (3)5/ (Column (4) x 1,000) ÷ Column (3)

**Restated Regression Utilizing
Cost Per Pound and Pieces Per Pound
(Regular)**

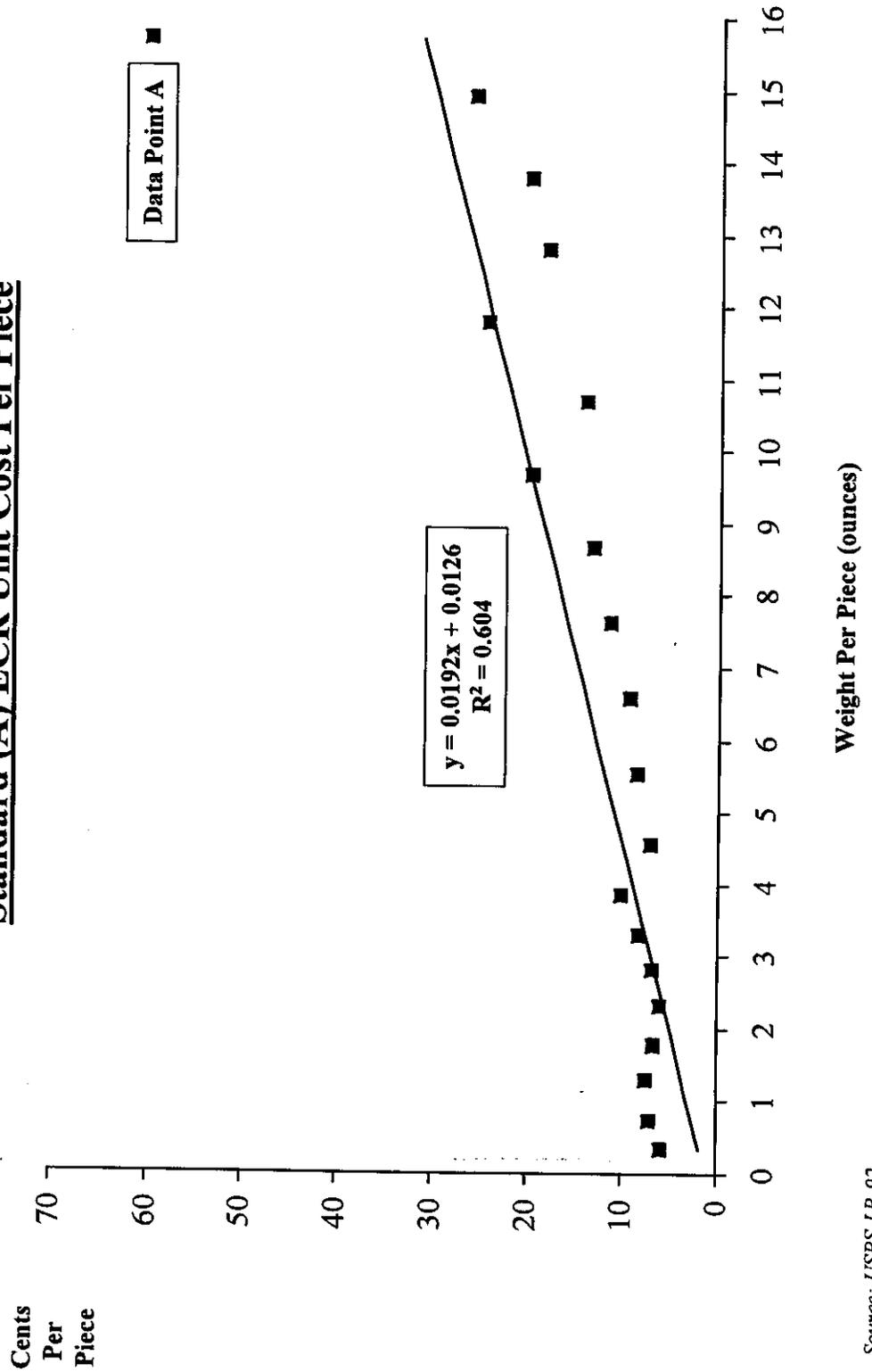


Source: MOAA, et al-RT-1.xls

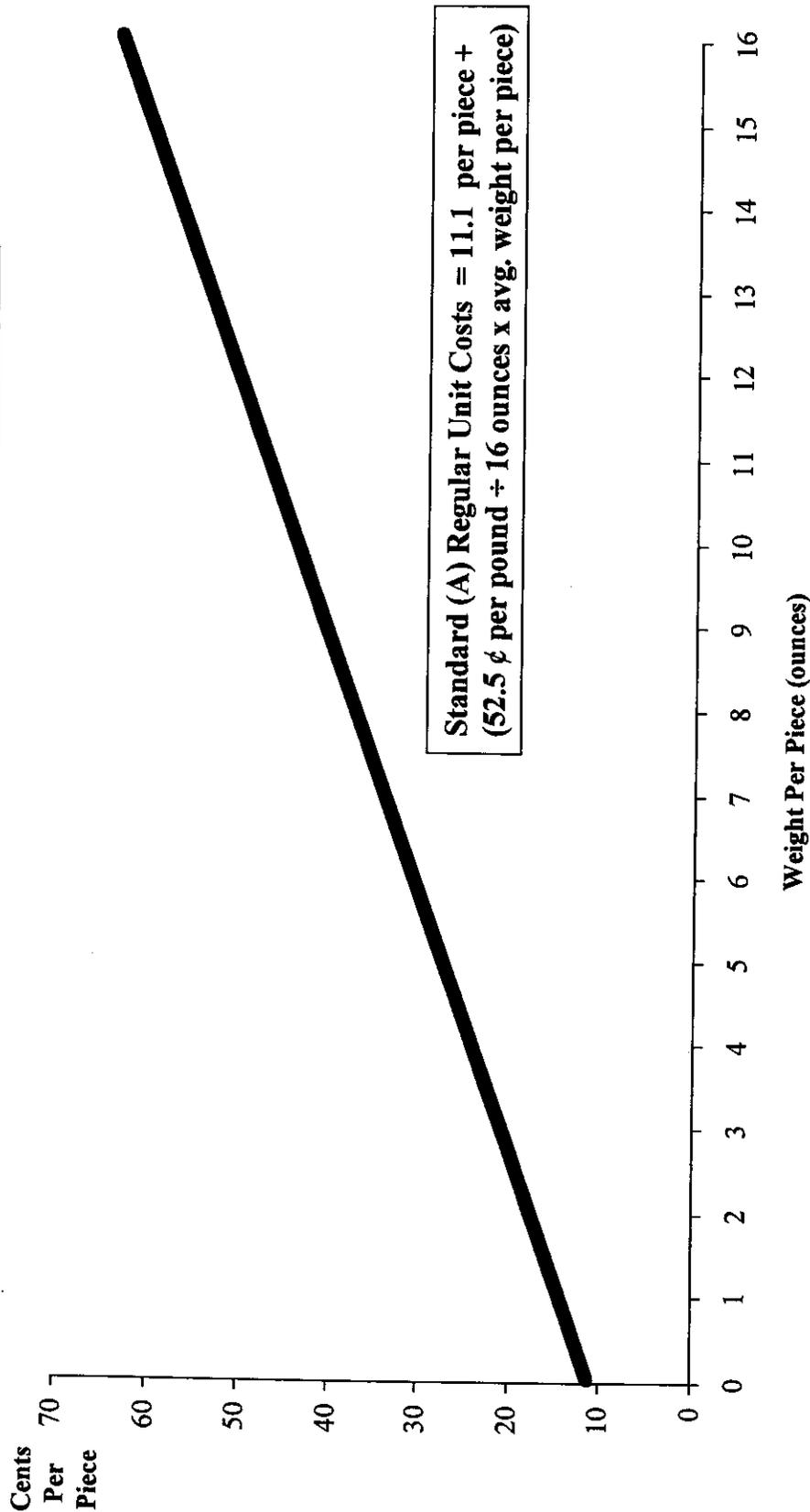
Restated Regression Utilizing Cost Per Pound and Pieces Per Pound (ECR)



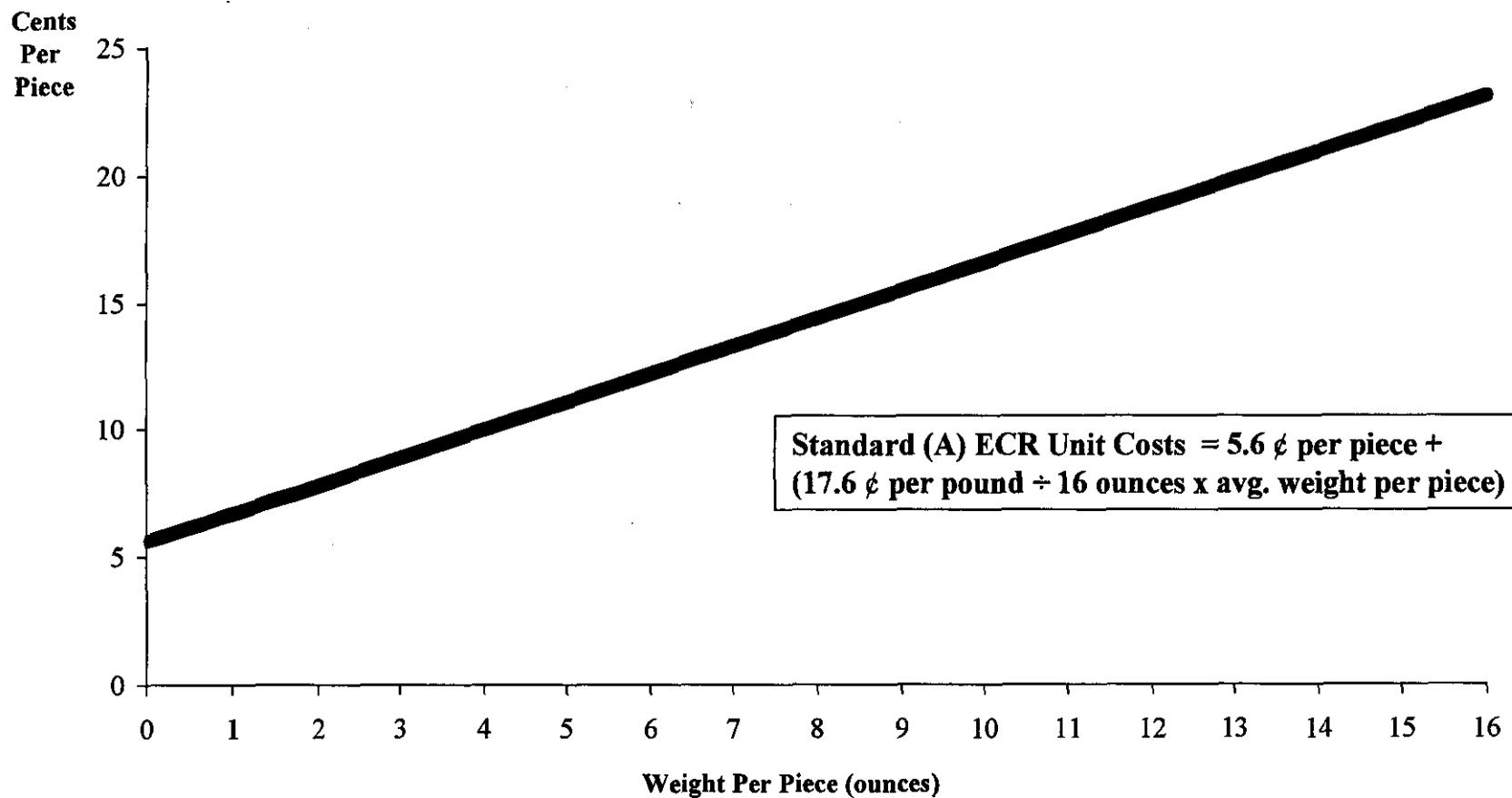
USPS Witness Daniel's Estimated Standard (A) ECR Unit Cost Per Piece



Unit Cost Line Based on Restated Regression -- Regular



Unit Cost Line Based on Restated Regression -- ECR



Source: MOAA, et al-RT-1.xls

1 CHAIRMAN GLEIMAN: Three parties have requested
2 oral cross examination: The American Bankers Association
3 along with the National Association of Presort Mailers, the
4 Newspaper Association of America and Val-Pak Direct Carol
5 Wright Promotions.

6 I don't see anyone here from ABA, NAPM right now,
7 so I suspect they have decided to forego the opportunity to
8 cross examine, at least for the time being, which means, Mr.
9 Baker, you're up.

10 MR. BAKER: Thank you, Mr. Chairman.

11 CROSS EXAMINATION

12 BY MR. BAKER:

13 Q Good afternoon, Mr. Prescott. I'm hopeful this
14 will not be particularly lengthy.

15 Your testimony uses as sort of the database on
16 which it operates the information provided by Witness
17 Daniel, correct?

18 A In part.

19 Q Yes. I mean, you have not done research beyond
20 what she had to come up with other cost figures? I mean,
21 you worked with the cost figures that she presented in her
22 testimony and interrogatory responses and then applied your
23 own analysis to those; is that correct?

24 A Do you want to refer to a specific table or
25 exhibit or --

1 Q Well, I was starting with a more general question.
2 Well, if you could just direct your attention to page 6,
3 line 13 where you say to use the same database as Witness
4 Daniel to do a particular alternate regression, and that was
5 -- you used her database, not some other database; is that
6 correct?

7 A For that particular portion of my testimony.

8 Q Right. Right. Okay. That's all I really meant.

9 Could you turn to table 2, which appears on page
10 12 of your testimony.

11 A Yes, I have it.

12 Q And this presents the results of the alternate
13 regression analysis that you performed, correct?

14 A It presents the summary of the results that are in
15 this chapter. There are other regression analyses that I
16 have done.

17 Q Okay.

18 A For this section of my testimony, this is the
19 summary, yes.

20 Q Yes. Okay.

21 And you report on table 2 there, as a result of
22 this regression, costs both on a per-pound basis and on a
23 per-piece basis, correct?

24 A Yes.

25 Q And looking at the line labelled ECR, is your

1 per-piece cost estimate larger than the proposed USPS
2 per-piece charge for above breakpoint mail, do you know?

3 A I don't understand your question.

4 Q Do you -- I'm asking you to compare the 5.6
5 cents-per-piece figure to the proposed per-piece charge for
6 above breakpoint ECR mail. Do you have -- do you know that
7 number?

8 A It depends on what level of sortation you're
9 talking about. Are you talking about just basic?

10 Q Let's start with basic.

11 A The proposed rates by the Postal Service Witness
12 Moeller --

13 Q Yes.

14 A -- for mail above the breakpoint, mail weighing
15 more than 3.3 ounces that's priced on a per-piece and
16 per-bound basis, the per-piece rate for basic mail is 5.5
17 cents.

18 Q And for saturation, it's 2.8 cents?

19 A In Witness Moeller, the per-piece rate for piece
20 pound rated mail is 2.8 cents, yes.

21 Q And so the cents per piece figure is above both of
22 those figures, correct?

23 A They're not comparable.

24 Q Okay. They're not comparable. Okay.

25 Well, then, let me ask you about the R-squared

1 column, and turning your attention, I guess, to page 15,
2 lines 12 through 17.

3 A Page 15, yes?

4 Q Yes, sir, okay. And at line 16 in the Summary
5 section there, you state that results are equally
6 significant for ECR mail with 96.5 percent of the change in
7 unit costs explained by changes in the weight function.

8 Does that 96.5 correspond to the R^2 found in Table
9 2?

10 A Yes.

11 Q And could you just tell us what the R^2 , what the
12 significance of an R^2 of 96.5 means or is?

13 A When you do a regression on a set of data, you
14 have effectively error that is explained and error that is
15 unexplained.

16 The R^2 tells you how much of the difference
17 between the regression line and the actual datapoints is
18 explained by the regression line.

19 In other words, in the regressions that I've done
20 with the regression that I have done for line 2 in Table 2,
21 96.5 percent of the difference between the datapoints and
22 the regression line has been explained.

23 Q And you regard that, in your judgement, as a good
24 fit?

25 A Yes.

1 Q Does -- I just want to ask you to help me
2 understand this.

3 Does this imply that 96.5 percent of the revenues
4 should be recovered by a pound charge? Can you make that
5 link?

6 A No.

7 Q No, all right.

8 Now, back to page 12, Table 2. This is a cost
9 figure, right, cents per pound, cents per piece? Are those
10 costs?

11 A Columns 2 and 3?

12 Q Yes.

13 A Those are costs, yes.

14 Q Do they include any markup or cost coverage?

15 A No.

16 Q Does this regression -- does the regression
17 equation which you ran to generate this, include datapoints
18 from pieces weighing less than 3.3 ounces?

19 A As shown in my Exhibit 1(b) which shows the
20 datapoints that are in the regression, it includes the full
21 range, zero to 16 ounces.

22 Q Okay.

23 Do you happen to recall whether Dr. Tye expressed
24 an opinion on whether pieces weighing zero to 3.3 ounces
25 should be included or excluded from any pound rate

1 regression?

2 A As it relates to a regression, no.

3 Q You don't recall?

4 A I don't recall.

5 Q Okay. I provided to your counsel yesterday, a
6 document which I'm about to distribute again now, which was
7 called a restated regression utilizing costs per pound and
8 pieces per pound, ECR pieces weighing 3.5 ounces or above.
9 Let me distribute that.

10 [Pause.]

11 Mr. Prescott, this document that I just
12 distributed has the caption I read, and it says it's based
13 on Exhibit MOAA et al, RT-1(c), page two of two.

14 And if you would turn to that page, I would agree
15 that the line looks different. Nevertheless, did you have a
16 chance to determine whether the document I just handed you
17 appears to be a blowup of the points in Exhibit 1(c) for the
18 points weighing 3.5 ounces or more?

19 A No, I didn't look at it that way.

20 Q Oh. Well, then, I will ask you to assume that it
21 is, and that the regression line specified on my exhibit is
22 a result of running your regressions on those points.

23 So you can make that assumption.

24 A All right.

25 Q And when I did, we see that I report an R^2 ; is

1 that correct?

2 A The sheet that you handed me has an R^2 notation,
3 yes.

4 Q And does that indicate to you a good fit or a bad
5 fit?

6 A It doesn't indicate one way or the other. I would
7 suggest that an R^2 this low is -- in my opinion, I wouldn't
8 consider it a good fit, no.

9 Q Okay.

10 MR. BAKER: Mr. Chairman, given as the witness --
11 that's the extent of what the witness is able to confirm on
12 the document, I would like to have it marked, but not
13 counted as evidence as NAA Cross Examination Exhibit
14 NAA/MOAA-RT-1-XE-1, I suppose. Is that the nomenclature you
15 prefer?

16 CHAIRMAN GLEIMAN: It sounds like the path that
17 we've gone down so far during these proceedings.

18 MR. BAKER: And I would like to have it so marked
19 and entered into the transcript.

20 CHAIRMAN GLEIMAN: I take you mean transcribed
21 from what you said a moment ago?

22 MR. BAKER: Transcribed, yes.

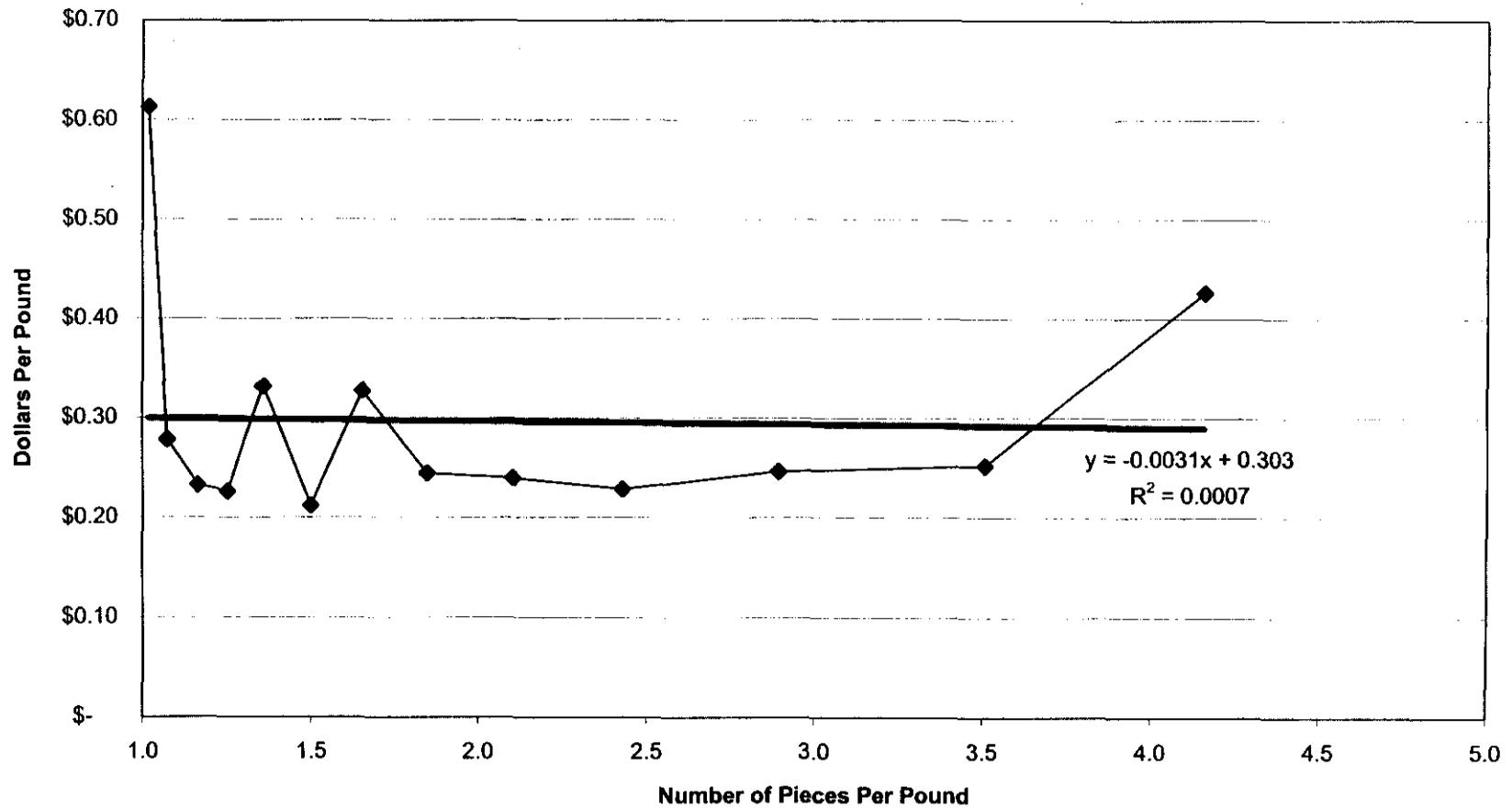
23 CHAIRMAN GLEIMAN: Okay, if you could do a stretch
24 there so that the Court Reporter can get those two copies,
25 then we'll direct that it be transcribed into the record.

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[Exhibit Number NAA/MOAA-RT-1-XE-1
was marked for identification and
transcribed into the record.]

NRA/NOAA-RT-1-X-EX-1

**Restated Regression Utilizing
Cost Per Pound and Pieces Per Pound (ECR)
Pieces weighing 3.5 ounces and above
(Based on Exhibit MOAA, et al.-RT-1C, page 2 of 2)**



1 BY MR. BAKER:

2 Q Mr. Prescott, could you turn again to your Exhibit
3 1(c), page two of two?

4 A Yes, I have it.

5 Q And is this is a graph of your restated regression
6 in the datapoints for ECR mail?

7 A Yes, it is.

8 Q Is Datapoint A the datapoint for the 15 to
9 16-ounce weight interval?

10 [Pause.]

11 A Yes, yes.

12 Q And does that -- that Datapoint A does appear to
13 be above the regression line; does it not?

14 [Pause.]

15 Your 1(c), page two of two. I'm looking at your
16 Exhibit 1(c), page two of two. And I'm asking you to look
17 at Datapoint A.

18 [Pause.]

19 A Well, some of the regression line is above that
20 datapoint and some is below.

21 Q Would you agree that at near zero, the data point
22 A is above the regression line?

23 A On the X axis?

24 Q Yes.

25 A Yes.

1 Q Do you consider data point A to be an outlier?

2 A No.

3 Q No?

4 A No.

5 Q And that, in fact, is what you meant in page 15 of
6 your testimony, lines 1 and 2 and so forth, when you said
7 the data set contains no statistical outliers and that you
8 have eliminated any statistical abnormalities that may have
9 been in the Daniel data, is that correct?

10 A Could you --

11 Q Well, I said --

12 A You said page 15.

13 Q 15.

14 A Line 2?

15 Q Line 2, and on line 10 you refer to eliminating
16 the statistical abnormalities.

17 A Okay.

18 Q Page 2 you say -- line 2, rather, you say there
19 are no outliers.

20 A Yes.

21 Q Okay. That is what you mean when --

22 A Yes.

23 Q Okay. Now, could you turn to Exhibit MOAA-RT-1-F,
24 which is page 1 of 1?

25 A I have it.

1 Q And can you tell us what this is?

2 A Exhibit 1-F is the result of my regression applied
3 so as to calculate the unit costs for the various weight
4 increments.

5 Q Now, I want to pass around a second document that
6 we prepared and sent to your counsel yesterday. Mr.
7 Prescott, have you had a chance to look at that document?

8 A Yes, I have.

9 Q And although drawn to a different scale, does this
10 contain your Figure 1-F?

11 A I didn't validate the numbers because you didn't
12 give me the underlying lines, but it appeared to.

13 Q Okay. And in addition, have we modified it by
14 adding in the data points from Witness Daniel's testimony?

15 A Again, you didn't give me the numbers behind it,
16 but it appeared that you had effectively plotted the dots
17 which are in my Exhibit 1-D, which are from Witness Daniel,
18 and also shown on my Exhibit 1-B.

19 Q Okay. Thank you. Do you see any what appear to
20 be outliers?

21 A These two data sets aren't consistent.

22 Q Which two data sets?

23 A Well, you have a regression that is not based on
24 those data points. The regression line is based on the data
25 points that you see in Exhibit 1-C, and I have already told

1 you that data point for the 15 to 16 ounce weight interval
2 is not a statistical outlier. In fact, we tested that and
3 it was not statically an outlier. But when you develop the
4 regression based on the data, that data set that I utilized,
5 you get the points that you see in 1-C.

6 Now, the data points, the dots, that you have on
7 your counsel exhibit are done in a different manner. Those
8 are the way Witness Daniel looked at the data.

9 Q Is the data underlying your Exhibit 1-C the same
10 as the data from Ms. Daniel's testimony?

11 A Well, I would refer you to Exhibit 1-B, Columns 2,
12 3 and 4, which are the aggregate number of pieces, the
13 aggregate weight and the aggregate cost, are the same as
14 utilized by Witness Daniel, which was from Library Reference
15 92.

16 Now, the way I looked at the data and the way I
17 produced a statistically valid analysis was to use the data
18 points that are in Columns 7 and 8. And when you do that,
19 you do not have any statistical outliers.

20 Q So you produced Columns 7 and 8, I am running your
21 regression that began with Columns 2, 3 and 4, is that
22 correct?

23 A No, Columns 7 and 8 are not developed from the
24 regression.

25 Q Other inputs. Okay.

1 A Columns 7 and 8 are the inputs into the
2 regression, and that regression line is shown on Exhibit 1-C
3 and the unit cost per piece is developed on 1-F, it is on
4 the regression.

5 Q Okay. If I look at the top of Column 7, footnote
6 4 tells me that that is Column 2 divided by Column 3,
7 correct?

8 A Yes.

9 Q Okay. So to create Column 7, you used the numbers
10 from the Daniel testimony?

11 A As I say, Columns 2, 3 and 4 are the same as in
12 Witness Daniel and Library Reference 92.

13 Q Okay. Similarly, Column 5 came based on Witness
14 Daniel's testimony as appears in Column -- as reflected in
15 Column 4 of Exhibit 1-B, correct?

16 A Column 5 is not based on Column 4.

17 Q That's right. Column 8, I may have misspoken, I
18 meant to refer to Column 8 and footnote 5.

19 A Rather than have you repeat the question, let me
20 just tell you how Column 8 is developed.

21 Q Okay.

22 A Column 8 is based on Column 4 divided by Column 3.

23 MR. BAKER: Let me pause for just a moment, Mr.
24 Chairman.

25 [Pause.]

1 BY MR. BAKER:

2 Q Mr. Prescott, I would like you to turn to page 47
3 and 49 of your testimony. And basically I want you to -- I
4 will be flipping back between Table 9 and Table 10.

5 A Yes, I have it.

6 Q Okay. You are here comparing the changes in mail
7 revenues and volume variable costs per piece between First
8 Class Presort, which is your Table 9, and ECR, which is your
9 Table 10, correct?

10 A Yes.

11 Q And at page 49, you point out that -- or you show,
12 I guess, that ECR has had a 19.1 percent increase in
13 revenues from '94 to the test year, is that correct, on a
14 cents per basis? I am looking at line 1 of Table 10.

15 A Yes.

16 Q And you are comparing that to the 7.9 percent for
17 First Class Presort over the same period shown on line 1 of
18 Table 9, correct?

19 A In part, that is what these tables do, yes.

20 Q Okay. I want to -- if you drop to line 3 on Table
21 10, can you confirm that in actual cents contribution, that
22 the increase -- no, I am back still on line 1, revenue. Can
23 you confirm in actual cents that the increase in revenue for
24 ECR is 2.52 cents, which corresponds to your 19.1 percent
25 increase?

1 A The change between Columns 2 and 3 is 2-1/2 cents.

2 Q And similarly, on Table 9, the change between
3 Columns 2 and 3 is 2.05 cents?

4 A Yes.

5 Q Okay. Now, I would like to drop down to line 3 of
6 these tables and look at the contribution in cents per
7 piece. Now, starting with Table 9 for First Class Presort,
8 has the unit contribution there shown risen about 3.07 cents
9 per piece over this time period you show?

10 A Yes.

11 Q That corresponds to a 21 percent increase, 21.3
12 percent increase, correct? In percentage --

13 A Percent increase --

14 Q Yeah, okay --

15 A -- from '94 to the test year --

16 Q -- and that 3.07 in an actual sense compares to
17 Table 10, line 3 of contribution by ECR of 1.3 cents, is
18 that correct?

19 A The change the contribution, cents per piece, in
20 Table 10 is 1.3 cents, yes.

21 Q Okay. In absolute terms the 3.07 is much more
22 than 1.3, although in percentage terms they are much closer,
23 is that correct?

24 A You lost me on the percentage point.

25 Q Well, I was comparing the 21.3 to 18.8, which I

1 believe are fairly close.

2 A Yes, they are.

3 Q Whereas the 3.07 and the 1.3 seem further apart
4 and more of a disparity there. Would you agree with that?

5 A Well, no. On a percentage basis they are about
6 equal.

7 Q On an absolute basis they are not.

8 A 3 is different than 1, yes.

9 Q Okay. On page 49, line 15, you state that ECR
10 mails had a much larger increase in revenues than that borne
11 by First Class presort.

12 A Excuse me, could you tell me where you are?

13 Q Page 49, lines 15 to 16.

14 A Thank you. Yes, I have it.

15 Q And there you were basing that on the differences
16 between the 19.1 percent in row 1 of Table 10 and the 7.9
17 percent of Row 1 on Table 9, correct?

18 A Yes.

19 Q How did this -- has First Class presort mail
20 experienced -- I am changing the question now -- has First
21 Class presort mail experienced a much larger increase as you
22 use the term here on page 15 in its unit contribution, cents
23 per piece, than ECR over this period?

24 A As I use the term of -- no. I wouldn't say so
25 because I am relying on percentages there and the percent

1 change for ECR is 19 percent and the percent change for
2 First Class presort is 21 percent.

3 Q Okay, and if I were to ask you to compare it in
4 absolute numbers, would you say that 3.07 is much larger
5 than 1.3?

6 A Well, compared to the base that they are measured
7 off from, the percent change is virtually identical.

8 Q All right. You state at page 17 -- excuse me,
9 line 17 of page 47 -- I'm still on page 47, where Table 9
10 appears -- that about 50 percent of the increase in the cost
11 coverage for First Class presort mail is due to decreased
12 costs.

13 Do you consider yourself an expert on First Class
14 costs?

15 A Yes.

16 Q Have you submitted testimony on First Class costs
17 in this proceeding? I don't recall any.

18 A Yes, I have.

19 Q Okay. To what extent do you say -- are the
20 decreased costs that you refer to here at line 18 due to
21 more efficient postal mail processing over, compared to
22 previous years?

23 A It is due to a number of factors.

24 Q Okay. Is more efficient postal mail processing
25 for First Class presort mail one of those?

1 A If more efficient mail processing means unit cost
2 decreases related to productivity, I would say yes.

3 Q And is that -- can you trace that to the
4 automation equipment that processes First Class presort
5 mail?

6 A In part.

7 MR. BAKER: Okay. Mr. Chairman, I think that
8 winds up my questioning. I think I will just conclude it
9 there.

10 My second cross examination exhibit the witness
11 didn't make the points that are or was I'm not sure verified
12 or did much with it so I do not particularly need to have it
13 in the transcript unless someone wishes to have it in for
14 clarity but I am not asking that it be put in the
15 transcript.

16 CHAIRMAN GLEIMAN: I don't see anybody jumping up
17 to say they want to put it in, so I guess we won't put it
18 in.

19 Mr. Hart, do you have any interest in crossing
20 this witness?

21 MR. HART: No.

22 CHAIRMAN GLEIMAN: You don't? Thank you.

23 [Laughter.]

24 CHAIRMAN GLEIMAN: You get points too.

25 Mr. Olson, you don't want to try for some points?

1 MR. OLSON: I'm going to give it a try.

2 CHAIRMAN GLEIMAN: Can't win for trying.

3 MR. OLSON: I am going to try to make a couple of
4 points.

5 CHAIRMAN GLEIMAN: They weren't the kind I had in
6 mind.

7 [Laughter.]

8 CROSS EXAMINATION

9 BY MR. OLSON:

10 Q Mr. Prescott, William. Olson representing Val-Pak.
11 Let me start on page 12, where you began with Mr.
12 Baker I think.

13 In that Table 2 I understand that is labelled
14 Summary of Regression Results cites as the source of the
15 data the Prescott work papers submitted with the testimony,
16 which I downloaded, correct?

17 A Yes.

18 Q And when you go to page 52 of your testimony --
19 well, as you -- right after page 52 you go to the Exhibits
20 1A and 1B, which are labelled Inputs for Revised Regression.

21 Those -- the data in the two exhibits in columns 7
22 and 8 are identical with respect to the data in your work
23 sheets, are they not?

24 A These whole exhibits are in the work papers, yes.

25 Q That you cite in Table 2?

1 A Yes.

2 Q Okay, and looking at Table 2, columns 2, 3 and 4,
3 did you make any adjustments to the data for destination
4 entry?

5 A Any adjustments?

6 Q Yes.

7 A This is the data that is in Library Reference 92.

8 Q Right.

9 A It is for all mail, all shapes.

10 Q And the same question for level of presort. You
11 made no adjustment? In other words, this is --

12 A The costs or the lack of costs for presortation or
13 destination entry are in the aggregate costs. This is for
14 all mail.

15 Q So the regression results that you report in Table
16 2 are for an average of all the mix of -- irrespective of
17 point of entry or presort conditions that were in Witness
18 Daniel's testimony?

19 A They are all the mail, yes.

20 Q Okay, and let's assume that the data that you
21 report in Table 2 was to be used as the cost basis for
22 setting a pound rate for Standard A regular and Standard A
23 ECR, if we were going to deduct destination entry discounts
24 from those pound rates, wouldn't there have to be some
25 upward adjustment necessary to accommodate that?

1 A Upward adjustment to what?

2 Q To the pound rates that are reflected there.

3 If we are going to give a discount for destination
4 entry, you would have to start with a higher pound rate,
5 would you not, for pieces that are not destination entered?

6 A Well, these are costs and not rates so you would
7 have to recover institutional costs above that also.

8 This develops the cost line. This does not
9 develop the rate line.

10 Q No, I understand, and I am asking you to assume as
11 a hypothetical that the costs that are in your Table 2 are
12 used to develop rates for ECR and regular and I think you
13 are agreeing with me that there would have to be some upward
14 adjustment not only for coverage but also for the fact that
15 these reflect the average mix of the mail, which includes
16 some pieces that have destination entered and some pieces
17 that have high levels or presort.

18 A I'm not agreeing that there would have to be an
19 upward adjustment, no.

20 Q Well, let's assume that in a simple circumstance
21 between coverage and the contingency, there was a rate which
22 was going to be twice the cost.

23 And so for that circumstance, wouldn't you have to
24 make an upward adjustment beyond twice the cost, if you were
25 going to give a discount for destination entry on a pound

1 basis?

2 A I'm not sure I followed your question. This gives
3 you a cost line and gives you a change in cost.

4 You can have a pound rate without destination
5 entry, which I would assume would be above the cost line,
6 and then you can have a discount off the rate that does not
7 have destination entry.

8 Q The same thing for level of presort, correct?

9 A The way the rate structure is designed by the
10 Postal Service, you have your basic rates and then you have
11 cost-based discounts off of those basic rates.

12 Q Right.

13 Let me ask you to look at Column 4 in that table,
14 and tell me whether the r-squared values that you report for
15 regular and ECR are substantially the same?

16 In other words, do you have about the same level
17 of confidence in a .959 as you do in a .965?

18 I know it's not the -- level of confidence that's
19 not the proper term, but do you think it's about the same
20 quality of fit?

21 A The way I would state it is that you have the same
22 level of explanation by the regression line. The regression
23 line explains approximately 96 percent of the deviation
24 between the individual datapoints and the line of the
25 regression.

1 Q And you don't find the difference between .959 and
2 .965 to be significant, correct?

3 A The two numbers, the two r-squared numbers are
4 totally independent of each other.

5 Q Well, I understand --

6 A They're developed from different datasets.

7 Q I understand that, but I'm asking you to compare
8 the two, and I'm trying to get at the fact that .959 and
9 .965 are awfully darn close, and see if you don't agree that
10 they're substantially equivalent r-squared values?

11 A Well, I would agree that I think that both
12 regressions produce statistically valid results.

13 Q All right.

14 And you wouldn't differentiate between which is
15 more statistically significant, based on the minor variance
16 in the r-squared; would you?

17 A No.

18 Q Okay.

19 Looking at the numbers in Column 2 for regular and
20 ECR, the cents per pound rate, it looks like the cost per
21 pound for regular is about three times the cost per pound
22 for ECR, correct?

23 A Yes, that piece of the regression, yes.

24 Q Okay. And in view of the higher squared's that
25 you find for both of these, the ECR and the regular, do you

1 think that this, the results that you have obtained and
2 reported in Table 2 would give the Commission a good
3 approximation of the relationship between the cost of weight
4 for Standard A regular and Standard A ECR?

5 A I wouldn't look at Column 2 by itself. Columns 2
6 and 3 have to be used in conjunction with each other,
7 because it's a total regression.

8 The numbers for Standard A regular are higher than
9 ECR, but I don't believe that that's unexpected.

10 Q Well, what I'm trying to get at is whether the
11 fact that the pound rate for -- or the cost per pound, cents
12 per pound of regular is about three times ECR, and ask you
13 if you believe that that is a good approximation of the
14 relationship of the cost of weight in Standard A regular and
15 Standard A ECR?

16 A It is an analysis of the change in costs related
17 to the weight portion of the regression, yes.

18 Q Take a look, if you would, at page 27 of your
19 testimony.

20 [Pause.]

21 A Yes, I have it.

22 Q Okay.

23 In line 10 at the end of the line you begin the
24 last sentence of the paragraph with in my opinion, when the
25 data is properly analyzed as I have done in Section 5 above,

1 no reason exists to exclude or otherwise aggregate the data
2 for the 15-16 ounce weight interval; do you see that?

3 A Yes.

4 Q Okay. So, it is correct that in the Table 2 we
5 just looked at, that your regressions used all the
6 datapoints in Witness Daniel's Library Reference without any
7 aggregation or adjustment, correct?

8 A I didn't use Witness Daniel's datapoints; I used
9 the datapoints --

10 Q As modified, right?

11 A -- Exhibit 1(a) and 1(b) of my testimony.

12 Q Columns 7 and 8?

13 A Yes.

14 Q Okay, right.

15 And when Witness Daniel did her analysis, she also
16 used the 15-16 ounce weight interval data, correct?

17 A Witness Daniel did some alternative analyses,
18 also. She did analyses where she excluded it, and she did
19 analyses where she aggregated things.

20 Q Okay, many different analyses.

21 And on page 28, within Table 6, the first line you
22 have there is UPS Daniel all data, computing a cost per
23 pound of 30.7 cents, and in -- do you see that?

24 A Yes.

25 Q Okay, and then if we were to compare that to your

1 Table 2, I understand where your Table 2 is drawn from, and
2 that showed an ECR pound rate of 17.6 cents for ECR,
3 correct?

4 A For the weight portion of the regression, yes.

5 Q Right.

6 So, if I were to ask you to compare these two
7 different estimates, yours of 17.6 and the USPS Daniel all
8 data, 30.7 cents, which one of those two estimates do you
9 consider to better reflect the weight/cost relationship for
10 ECR mail?

11 A I think Table 2 that I have developed is a more
12 statistically valid analysis of the relationship of changes
13 in cost to changes in weight.

14 Q And would you recommend the Commission use Table 2
15 in determining the appropriate pound -- the numbers in Table
16 2, specifically the 17.6 cents for ECR, when determining the
17 appropriate pound rate for Standard A ECR?

18 A That's not my recommendation.

19 Q Why not?

20 A My recommendation is that the Postal Service's
21 rate proposal be accepted. As part of the Postal Service's
22 analysis, they looked at changes in weight and cost as one
23 of the inputs into how they determine what the pound portion
24 of the rates for pieces above the break point should be.

25 I would, in my opinion, utilize the analyses that

1 I've put here in my testimony to show that there is a valid
2 analysis of the relationship of changes in weight and
3 changes in cost, and that when viewing that analysis, it is
4 further support for the Postal Service's proposal.

5 Q What I am trying to get at is if -- we are trying
6 to find out the weight-cost relationship of Standard A ECR,
7 and we have Witness Daniel's number of 30.7 and yours of
8 17.6. I think you have said you think the 17.6 is a better
9 approximation of the weight-cost relationship of ECR,
10 correct?

11 A I think my regression results are a better
12 analysis of the weight-cost relationship, and the 17.6
13 versus the 30.7 are the pound portion of that regression
14 analysis. There is also another piece portion of the
15 regression analysis and those numbers are different, too.

16 Q Sure. I am just focused at the moment on the
17 pound portion of the rate. And yet you seem -- I understand
18 your testimony is submitted in support of the Postal
19 Service's case, and you, in your testimony, recommend the
20 Postal Service's requested rates for Standard A ECR pound
21 rate, correct?

22 A And for the Standard A Regular pound rate.

23 Q And what I am trying to get at is, if the
24 Commission were trying to understand what the proper
25 weight-cost relationship is for Standard A mail, and they

1 were to want to find what the pound rate is, and they were
2 to look at your testimony, they would find 17.6 cents for
3 ECR, correct?

4 A That is not a pound rate. That is --

5 Q It is a cost, I'm sorry. I shouldn't be saying
6 rate. But that is what you believe the cost of ECR to be,
7 the pound component of the nonletter rate?

8 A No. I didn't say anything about the nonletter
9 rates.

10 Q I'm sorry. I am doing it again, it is getting
11 late. You believe that the 17.6 cents is a better
12 approximation of the cost of ECR mail in terms of the pound
13 rate than Witness Daniel's 30.7 cents?

14 A You said pound rate again. No, it is not.

15 Q The cost. I can't stop myself.

16 A May I just summarize what I think I --

17 Q Give it a try.

18 A Table 2 summarizes the coefficients in the
19 regression, which I feel are statistically valid, and I
20 think I have shown it is statistically valid. It has a
21 pound portion and a piece portion. For that you can
22 determine a unit cost line per piece like I have done in
23 Exhibit 1-F. In my opinion, that supports the Postal
24 Service's rate proposal, which includes the pound rates as
25 proposed by Witness Moeller.

1 Q And it would also support an event lower pound
2 rate, would it not?

3 A It would suggest, the cost line from the
4 regression would suggest that you can lower the pound rate
5 and still be significantly above cost.

6 MR. OLSON: Thank you, Mr. Chairman.

7 CHAIRMAN GLEIMAN: Is there any follow-up?

8 [No response.]

9 CHAIRMAN GLEIMAN: Questions from the bench?

10 [No response.]

11 CHAIRMAN GLEIMAN: Mr. Todd, would you like some
12 time to prepare for redirect?

13 MR. TODD: Just a very brief time, a minute or
14 two, Mr. Chairman.

15 CHAIRMAN GLEIMAN: Certainly.

16 [Recess.]

17 REDIRECT EXAMINATION

18 BY MR. TODD:

19 Q Mr. Prescott, the regression analysis that is in
20 the record as MAA-MOAA-XE-1, I believe. This is a restated
21 regression using a subset of the cost data for Standard
22 mail, which is not the way you approached your analysis.
23 Could you explain why you did not use subsets and instead
24 used, as I understand it, the entirety of the data from
25 Standard Mail A?

1 A Yes. The exhibit that was provided by Mr. Baker
2 is effectively a regression based on lines -- in Exhibit 1-B
3 of my testimony, lines 8 through 20, whereas, my regression
4 results is line 1 through 20, and in order to evaluate the
5 impact of changes in costs due to changes in weight, you
6 should look at the whole range zero to 16 ounces, because
7 the rates are tied together in a package for the whole
8 subclass so that the rates below the breakpoint are also
9 linked to the rates above the breakpoint.

10 MR. TODD: Thank you, Mr. Prescott.

11 Mr. Chairman, that completes my redirect.

12 CHAIRMAN GLEIMAN: Thank you, Mr. Todd and thank
13 you, Mr. Prescott.

14 Unless there is some recross --

15 MR. BAKER: One question.

16 CROSS-EXAMINATION

17 BY MR. BAKER:

18 Q I appreciate, Mr. Prescott, for your explaining my
19 cross-examination exhibit better than I did. Just one
20 question. Do the pieces below the breakpoint pay a pound
21 rated charge?

22 A Well, they are tied together. For example, at the
23 breakpoint, the rate for pieces below the breakpoint is
24 equal to the piece pound rate for a 3.3 ounce piece. And
25 when you look at the discounts for piece rated mail below

1 the breakpoint, those discounts are the same as the
2 discounts for mail above the breakpoint. So the rates
3 proposed by the Postal Service are tied together.

4 Q Have you completed your answer?

5 A Yes, that is my answer.

6 MR. BAKER: No more questions.

7 CHAIRMAN GLEIMAN: Anything further?

8 [No response.]

9 CHAIRMAN GLEIMAN: If not, then, Mr. Prescott,
10 that completes your testimony here today, and I think your
11 testimony for this round of hearings. We thank you for your
12 contributions today and in the past, and appreciate your
13 appearance, and you are excused.

14 THE WITNESS: Thank you.

15 [Witness excused.]

16 CHAIRMAN GLEIMAN: Mr. McLaughlin, I believe you
17 have our next witness.

18 MR. McLAUGHLIN: Mr. Chairman, on behalf of ADVO,
19 I call Antoinette Crowder as the next witness.

20 CHAIRMAN GLEIMAN: Ms. Crowder is already under
21 oath in these proceedings, so you may continue when you're
22 ready.

23 Whereupon,

24 ANTOINETTE CROWDER,

25 a witness, was called for examination by counsel on behalf

1 of ADVO and, having been previously duly sworn, was further
2 examined and testified as follows:

3 DIRECT EXAMINATION

4 BY MR. McLAUGHLIN:

5 Q Ms. Crowder, I'm handing you two copies of
6 rebuttal testimony of Antoinette Crowder on behalf of ADVO,
7 Inc. designated as ADVO-RT-1, and I would ask if this is
8 your rebuttal testimony in this proceeding.

9 A Yes, it is.

10 Q Was this prepared by you or under your direction
11 or supervision?

12 A Yes, it was.

13 MR. McLAUGHLIN: Mr. Chairman, we do have some
14 corrections.

15 BY MR. McLAUGHLIN:

16 Q Ms. Crowder, I would ask that you read the
17 corrections into the transcript, and they have been made on
18 the record copies that we'll be handing in.

19 A The first one is just a typo on page 39, line 16.
20 The word "and" is changed to "an."

21 Q That's a-n.

22 A A-n.

23 Page 19, I have several changes on table 3-5. On
24 basic rate letters, all four of those numbers change and
25 I'll read across. Average cost is 7.09; average revenue is

1 15.72; average contribution is 8.63 and cost coverage is 222
2 percent.

3 And then for the All Letters line, average cost
4 has been changed to 6.57; average revenue remains the same;
5 average contribution is 8.17; and institutional cost
6 coverage is 224. percent. And then on line 5, line 5 now
7 reads "Contribution that is almost a half penny (0.44 cents)
8 greater than letters."

9 Q And with those corrections, is this true and
10 correct --

11 A Oh. I have one more.

12 Q Oh.

13 A Sorry. Page 9, line 11, I just put the "t" on
14 "weight."

15 Q I did know about that one. I just forgot about
16 it.

17 With those corrections, is this testimony true and
18 correct to the best of your information and belief?

19 A Yes, sir.

20 MR. McLAUGHLIN: Mr. Chairman, I would ask that
21 ADVO-RT-1 be received into evidence and transcribed into the
22 record.

23 CHAIRMAN GLEIMAN: Is there an objection?

24 Hearing none, I'll direct that counsel provide two
25 copies of the corrected rebuttal testimony of Witness

1 Crowder to the court reporter. The testimony will be
2 transcribed into the record and entered into evidence.

3 [Rebuttal Testimony of Antoinette
4 Crowder, ADVO-RT-1, was received in
5 evidence and transcribed in the
6 record.]

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ADVO-RT-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C.

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY OF
ANTOINETTE CROWDER
ON BEHALF OF
ADVO, INC.

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August 14, 2000

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PURPOSE OF TESTIMONY

1 My name is Antoinette Crowder and I am a senior consultant with
2 TRANSCOMM, Inc., in Falls Church, Virginia. I have testified before the Postal Rate
3 Commission in this and prior proceedings. My autobiographical sketch is included
4 as Appendix A to my earlier direct testimony in this proceeding on behalf of Magazine
5 Publishers of America, et al., MPA-T-5.

6 The purpose of my testimony is to address the Standard A Enhanced Carrier
7 Route (ECR) subclass rate issues, particularly the "pound rate" issue, raised in the
8 direct testimony of VP/CW witness Haldi, AAPS witness White, and NAA witness Tye.
9 All three witnesses criticize the Postal Service's proposal to moderately increase the
10 piece rate and reduce the pound rate for ECR pound-rated mail, and urge that it be
11 rejected. I demonstrate that their criticisms are unfounded. In addition, I address
12 other ECR rate structure proposals presented by Dr. Haldi.

I. SUMMARY AND RECOMMENDATIONS

A. Background and Summary of Results on the "Pound Rate" Problem.

13 This is the third proceeding where the Postal Service has proposed to
14 moderate the high ECR pound rate. Its proposal in this case is much more modest
15 than in Dockets MC95-1 and R97-1, with a pound rate reduction only about half of that
16 proposed in R97-1. Despite this extensive litigation, there are still a number of
17 compelling reasons for reducing the pound rate that continue to be overlooked (or
18 perhaps intentionally ignored) by those opposing a lower pound rate.

19 The Problem With The High Pound Rate. To understand the "pound rate"
20 issue, it is important to understand that it is actually a broader issue concerning (and
21 interrelated with) the entire ECR rate structure. Within the ECR rate structure,
22 separate piece-rates are developed for letters and nonletters at the saturation and

- 2 -

1 high-density levels.¹ This letter-nonletter rate differential is conceptually intended to
2 reflect only the higher "shape-related" costs of nonletters, but in fact it also charges
3 nonletters with weight-related cost differences that are already more-than-recovered
4 through the excessively high pound rate. Below the 3.3-ounce rate "breakpoint,"
5 letters and nonletters pay a "minimum per piece" rate.²

6 Above the 3.3-ounce breakpoint, ECR nonletters pay a very small per-piece
7 charge (ranging from 0.3¢ for Saturation mail up to 2.5¢ for Basic Rate mail), plus a
8 very large 66.3¢ pound charge that applies to the entire weight of the piece --
9 producing rates that increase sharply with increasing weight. For this rate structure to
10 be reflective of true costs, (1) the piece-related cost for such pieces would have to be
11 extremely low and (2) the weight-related cost would have to increase steeply on an
12 almost one-for-one basis with increasing weight. This simply does not comport with
13 operational reality and cannot be explained in any reasonable manner. There are
14 unquestionably significant piece-related costs for ECR mail throughout all weight
15 ranges, and conversely, there is no evidence or operational explanation supporting
16 the notion that the costs of mail pieces above the breakpoint are almost entirely
17 weight-related.

18 Further, because the current rates for ECR pound-rated pieces are excessive
19 (i.e., contribute more than the subclass average to institutional costs), the rates for
20 piece-rated pieces are correspondingly too low. An incorrect pound rate means that
21 the piece rates are also incorrect.

1 For rate purposes, letters are defined as letter-shaped pieces at or below the 3.3-ounce per piece breakpoint, while nonletters include the sum of (1) flat- and parcel-shaped pieces up to 16 ounces plus (2) letter-shaped pieces weighing above the 3.3-ounce breakpoint.

2 This flat rate structure below 3.3 ounces is consistent with cost data over many years that show that costs do not vary significantly with weight over this range.

- 3 -

1 In short, there is no justification supporting the current high pound rate and
2 resulting steep rate curve above the breakpoint.³ Correcting this problem requires an
3 increase in the per-piece charge and a reduction in the pound rate to levels that
4 approximate the actual piece-related and weight-related costs for additional piece
5 weight over the breakpoint. Thus, the real question is: How much does additional or
6 marginal weight above the 3.3-ounce breakpoint actually cost on a per pound basis?
7 To answer this question, the Postal Service presented a weight-cost study demon-
8 strating the general ECR weight-related cost structure. The study clearly shows that
9 additional weight causes a substantially less than one-for-one increase in cost.

10 Analyses Demonstrating Low ECR Weight-Related Costs. In this testimony, I
11 show that the USPS proposal is fully supported both by common sense and by all
12 available cost evidence. Indeed, the proposal is only a moderate improvement which
13 does not fully correct for the overcharging of pound-rated mail. I present several
14 alternative analyses, employing extremely conservative assumptions that clearly
15 overstate the effect of weight, in order to demonstrate that even in the worst case, the
16 effect of weight on costs is relatively small -- and well below the pound rate proposed
17 by the Postal Service. I also present weight-cost curves for ECR flats by density level
18 which further corroborate the general weight-cost structure shown in the USPS
19 weight-cost curves. Even with the USPS proposed rates, the weight-related increase
20 in postage is still substantially greater than the increase in cost. As a result, ECR
21 nonletters make a greater per piece contribution to institutional costs than do ECR
22 letters.

23 In addition, I address the criticisms of the USPS weight-cost study by Dr. Haldi,
24 Mr. White, and Dr. Tye, and show they are simplistic, exaggerated, misleading, and

³ Even Dr. Haldi declined to defend the current rate structure as cost-based, stating that it "lacks credibility" but should nevertheless remain unchanged pending a further "credible weight-cost study." Tr. 32/15912.

- 4 -

1 cannot be used to invalidate the results of the USPS weight-cost study. I explain why
2 one would expect, operationally, that the increase in cost due to an increase in weight
3 should be relatively moderate. I also explain why the arguments of competitive harm
4 raised by Tye and White are unfounded, and why a more cost-based ECR rate
5 structure will enhance rather than harm competition.

6 Haldi's Flawed Letter-Nonletter Cost and Rate Proposals. Finally, I
7 demonstrate that Dr. Haldi's proposed ECR letter-nonletter rate differentials are
8 based on flawed analyses. First, he has overstated the effect of heavy-weight letters.
9 Second, he has incorrectly assumed that the letter-nonletter cost difference is entirely
10 piece-related, when in fact it also includes weight-related cost differences. His near
11 100% passthrough is therefore excessive. His proposed increase in the letter-
12 nonletter cost difference (after my correction) should be more than offset by the need
13 to reduce the passthrough to avoid double-counting of weight-related costs.

14 **B. Recommendations.**

15 Based on my analyses of ECR costs and cost structure, I recommend
16 that the Commission accept the Postal Service's proposed ECR rates. Dr. Haldi's
17 rate proposals, with respect to the pound rate and letter-nonletter rate differential,
18 should be rejected. Dr. Tye's rate proposals should be rejected in their entirety.

19 **C. Organization of the Testimony.**

20 The remainder of this testimony is divided into four sections. The next
21 section explains why it is not even necessary to have a "cost study" to demonstrate
22 that the current pound rate is, on its face, excessive. Section III describes my
23 analyses of ECR rates, costs, and contributions to institutional costs. Section IV
24 presents my comments on the weight-cost study criticisms of Dr. Haldi, Mr. White, and
25 Dr. Tye. Section V explains why Dr. Haldi's letter-nonletter rate differential is excessive
26 and unwarranted.

II. IT DOESN'T TAKE A STUDY TO KNOW THAT THE ECR POUND RATE IS TOO HIGH.

1 Reading the testimonies of witnesses Haldi (VP/CW-T-1), White (AAPS-T-1),
2 and Tye (NAA-T-1) criticizing the proposed lower ECR pound rate, one is reminded of
3 the adage about "not seeing the forest for the trees." They all carefully confine their
4 arguments to technical criticisms of the USPS weight-cost study presented by witness
5 Daniel (USPS-T-28). They variously claim that the "IOCS tallies are too thin," that
6 Daniel's unit costs by ounce-increment do not produce a perfectly smooth "cost
7 curve," that her data show a large jump in cost for the minuscule volume in the last
8 15-16 ounce weight increment, or that the IOCS data do not perfectly capture all
9 weight-related costs.

10 What is more revealing is what these witnesses do *not* say.

A. What The Opponents Of The Moderately Lower Pound Rate Don't Say.

11 These witnesses do *not* contend that the current ECR pound rate and rate
12 structure accurately reflect the true effect of weight. Quite to the contrary, Dr. Haldi
13 forcefully (and in important respects, correctly) argues that it does not. For example,
14 Haldi points out that, because Standard A ECR mail bypasses many weight-related
15 handlings that are incurred by Standard A Regular mail (which requires "substantially
16 more" processing), "I would expect ECR to have a relatively smaller amount of weight-
17 related costs than Standard A Regular." Tr. 32/15883-4. Yet he proposes only a token
18 0.3¢ lower ECR pound rate.

19 Instead, Haldi and the others say that the pound rate should remain
20 unchanged until the Postal Service produces a "definitive study" on the weight-cost
21 relationship. However, as I show below, the excessiveness of the current pound rate
22 can be proved without a "study."

B. The Cost Of Two 4-Ounce Pieces v. One 8-Ounce Piece: Where Is The Rebuttal?

1 On its face, the ECR pound rate is too high. The clearest demonstration of this
2 comes from simply looking at the current rates for pound-rated saturation nonletters
3 drop shipped to the destination delivery unit. This mail currently pays a tiny piece
4 charge of 0.3¢ per piece, plus a large pound rate of 53.7¢ per pound. The rate for a 4-
5 ounce piece is 13.725¢, while an 8-ounce piece is charged 27.15¢. A doubling of
6 weight thus results in a near doubling (98% increase) of the rate. Viewed another
7 way, the postage for *two* 4-ounce pieces (27.45¢) is only 0.3¢ greater than the
8 postage for a *single* 8-ounce piece (27.15¢).

9 For this rate structure to accurately reflect costs, one would have to believe that
10 the piece-related handling costs of these mail pieces is only 0.3¢ per piece, and that
11 *all* of the remaining cost is due solely to weight. Yet no one could possibly contend
12 that the true piece-handling cost is so minuscule, and that all of the rest of the cost of
13 these mail pieces is purely weight-related. The notion that it costs the Postal Service
14 only 0.3¢ more to handle two 4-ounce pieces than one 8-ounce piece is simply
15 inconceivable. It is likewise inconceivable that this mail -- which is dropshipped to the
16 destination delivery unit and thus bypasses substantial weight-related transportation
17 costs -- could possibly have such huge weight-related costs.

18 The above comparison demonstrating the absurdity of the current pound rate is
19 not something new. Similar or identical comparisons were presented in Dockets
20 MC95-1 and R97-1 by myself and other parties (see, e.g., ADVO-RT-1 at 13, Tr.
21 34/18316, R97-1). In this R2000-1 rate case, USPS witness Moeller has again made
22 the same point about the minuscule 0.3¢ piece charge: it is "illogical that the Postal
23 Service would be that indifferent between processing and delivering two 4-ounce
24 pieces, and one 8-ounce piece." USPS-T-35 at 21-22.

1 Yet still, nearing the end of the third proceeding where this compelling
2 demonstration of the illogic of the high pound rate has been presented, no witness
3 opposing a lower pound rate has addressed it, much less tried to offer a real-world
4 explanation to support the rationality of such a tiny per-piece charge and large per-
5 pound charge.⁴ The reason we have not seen an offered explanation is because
6 there is no plausible operational or cost-related explanation.

7 It is a point, however, that cannot continue to be ignored -- because it
8 demonstrates, even without the necessity of technical cost studies, that the ECR
9 pound rate is too high and way out of line with any rational expectation of true piece-
10 versus weight-related cost behavior.

C. As Haldi Acknowledges, Dropshipped Saturation Nonletters Are The Category Of ECR Mail Most Prejudiced By The High Pound Rate.

11 Dr. Haldi's own arguments, and his various concessions, demonstrate
12 conclusively not only (1) that the ECR pound rate is too high, but also (2) that because
13 of other shortcomings in the rate structure, this overcharging for weight is most
14 excessive in the case of ECR Saturation flats, especially those entered at destination
15 delivery units. This is due to a number of causes:

- 16 • The ECR pound rate itself is too high, as Haldi implicitly acknow-
17 ledged in his comparison to Standard A Regular mail (and as I
18 demonstrate later through a variety of cost analyses).
- 19 • Because weight-related costs avoided due to presorting are not
20 reflected in the ECR saturation discount, heavier weight saturation
21 pieces pay too much in weight-related charges (or in Haldi's words
22 are "disadvantaged") compared to lighter weight pieces. Haldi at Tr.
23 32/15917-18; 15923-24.
- 24 • For the same reason, saturation pieces pay too much in weight-
25 related charges compared to non-saturation pieces.

⁴ This point was likewise not addressed in the Commission's MC95-1 or R97-1 decisions.

1 • Because the letter-flat cost differential includes not just shape-related
2 but also weight-related cost differences, "passing through" the entire
3 letter-flat cost differential over-charges flats with weight-related cost
4 differences that are already charged to flats through the (itself
5 excessive) pound rate. Conversely, letters are under-charged.⁵

6 In short, ECR saturation flats get the worst of all worlds in every respect -- they
7 pay a too-high pound rate to begin with, but then get double-charged for weight with
8 an excessive letter-nonletter rate surcharge, and yet do not get full credit for the
9 weight-related costs avoided due to their finer level of presortation.

10 Conversely, the parties opposing a reduced pound rate all receive unjustified
11 windfalls from these skewed rate relationships. The non-postal competitors,
12 represented by NAA and AAPS, benefit by having their mail competitors pay
13 excessively high rates that shelter them from competition. And Val-Pak/Carol Wright,
14 whose mailings are predominantly letters under the 3.3-ounce breakpoint, benefit
15 through a lower-than-warranted letter rate.

III. HALDI, TYE, AND WHITE AVOID THE BROADER PERSPECTIVE: THE POUND RATE IS SUBSTANTIALLY GREATER THAN WEIGHT-RELATED COSTS.

16 VP/CW witness Haldi (VP/CW-T-1), NAA witness Tye (NAA-T-1), and AAPS
17 witness White (AAPS-T-1) oppose the Postal Service's proposal to moderately
18 increase the piece rate and reduce the pound rate for ECR pound-rate mail. All
19 criticize the weight-cost study supporting the Postal Service proposal but, in addition,
20 Mr. White and Dr. Tye also express concerns that lowering the pound rate will harm
21 competitors in the print advertising distribution market.

⁵ In cross-examination, Haldi claimed to be "unsure" whether the letter-nonletter cost differential included weight-related cost differences (Tr. 15972-73), but he conceded that, if so, a full passthrough would overcharge nonletters (Tr. 15980-82). In fact, the letter-nonletter cost differential does include weight-related cost differences (Daniel, Tr. 4/1370), and both the Postal Service and Haldi proposed near 100% or higher passthroughs.

1 My discussion in Section II demonstrates the clear reasonableness of the
2 proposed ECR pound rate as a matter of logic and common sense. In addition, there
3 are a number of analytical ways to test and demonstrate that reasonableness.

4 In this section, I first demonstrate quantitatively that the cost of additional weight
5 above the 3.3-ounce breakpoint is considerably less than the USPS proposed pound
6 rate. Even under the improved proposed rates, postage will still increase
7 substantially as weight increases, and ECR nonletters will make a greater
8 contribution to institutional cost than ECR letters. This large contribution from ECR
9 nonletters alleviates any concerns about how the proposed rates will affect
10 competition.

**A. The Proposed Pound Rate Is Substantially Greater Than The
Maximum Costs Possibly Related to Weight.**

11 USPS witness Daniel's ECR weight-cost study produces a weight-cost
12 curve demonstrating that cost changes only moderately with weight.⁶ The
13 reasonableness of the USPS proposal can also be demonstrated by various
14 analyses of ECR costs and volumes by shape. These analyses, described below,
15 confirm conclusively that weight has a small impact on ECR costs for pieces above
16 the breakpoint.

17 In my analyses, I use ECR test year letter and flat costs, volumes, and weights
18 to develop average piece costs for ECR Basic Rate and Saturation Rate letters and
19 flats (or nonletters) at various dropship-entry levels. From those, I derive per pound
20 costs by density- and entry-level. These estimates are reasonable proxies for "bottom

⁶ To do this, she identified the total ECR costs, volumes, and weights by shape and then, separately, distributed those costs, volumes, and weights to 20 separate piece weight cells (8 half-ounce cells up to 4 ounces and 12 one-ounce cells up to 16 ounces) to calculate the average cost per piece by ECR shape for volume in each piece weight cell. (USPS-T-28)

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1 up" ECR costs.⁷ As such, they address Dr. Haldi's concern that weight-cost
2 relationships be identified by density level and dropship-entry level.

3 From these data, I then perform two sets of analyses to demonstrate, with
4 conservative assumptions, the reasonableness of the proposed pound rate. The first
5 analysis is based on ECR flat costs and volumes alone, while the second analysis is
6 based on the cost and weight differences between ECR letters and nonletters.
7 Although the estimates vary, depending upon the assumptions used, they all indicate
8 that the USPS proposed rates for pieces above the 3.3-ounce breakpoint recover
9 considerably more than their costs.

1. **Estimates Based on ECR Flat Volumes and Costs Alone.**

10 For the first analysis, looking at the weight-cost relationship for
11 flats alone, I used data from (1) witness Daniel's response to ADVO/USPS-T28-13
12 which provided distributions of costs, volumes, and weights (by weight cell) for letters
13 and flats in the Basic-Rate and Hi-Density/Saturation Rate categories; and (2) witness
14 Crum's USPS-T-27 which provided modeled cost avoidances for various ECR
15 dropship-entry levels.⁸ Using that data, I then made two alternative assumptions

7 In R97-1, Dr. Haldi recommended a "bottom up" ratemaking approach, which he explained as follows:

"When estimating costs from the bottom up, the Postal Service computes the amount of volume-variable costs incurred, and adds costs incurred for different functions and activities, such as sorting and transportation, to arrive at the estimated cost for individual rate categories or rate cells. The volume-variable unit cost for any rate category is the total volume-variable cost of the category divided by the volume. . . . Bottom up estimates of product costs are common throughout the printing industry . . . and in manufacturing generally. Bottom up costs are typically the starting point for determining product prices in these businesses." (VP/CW-T-1at 10-11, Tr. 27/15049-50, R97-1)

8 To derive these costs, I made the following modifications to Ms. Daniel's figures:

- Shifted costs and volumes of letters over the 3.3-ounce breakpoint to flats. This was done using Dr. Haldi's assumption that 40% of the volumes and costs in
(footnote continued on next page)

1 about the weight-cost relationship to derive, under each assumption (Cases 1 and 2),
2 the resulting implied weight-related cost per pound.

3 For Case 1, I made the extreme assumption that the *entire* costs for *all* flats,
4 both above and below the breakpoint, are purely weight-related -- with *zero* piece-
5 related handling costs. To calculate the resulting per-pound cost under this
6 assumption, I simply divided total ECR flat costs (adjusted to reflect destination
7 delivery unit DDU entry) by the total weight of that mail.

8 For Case 2, I looked only at flats weighing more than the 3.3-ounce breakpoint,
9 and I made a similar extreme assumption that the total costs for those flats were
10 entirely weight-related (i.e., again assuming zero piece-related handling costs). The
11 resulting estimated cost per pound for those heavy-weight flats was derived by
12 dividing total costs (adjusted to reflect DDU entry) by total weight.

13 The resulting implied per-pound costs under these two extreme assumptions
14 are shown below:⁹

(footnote continued)

the 3.0 to 3.5 ounce weight cell are over the breakpoint. (VP/CW-T-1, Appendix A, page A-5);

- Equalized the city carrier in-office costs between Hi-Density/Saturation letters and flats, just as witness Daniel did in developing her estimates;
- Corrected rural carrier costs to reflect the figures in USPS LR I-95.

I also eliminated transportation and dropship-related mail-processing costs. To be conservative, I also retained Daniel's treatment of elemental load costs, distributing those costs among piece weight cells based on the total weight in each cell, even though these costs are shape-related, and certainly not purely weight-related.

⁹ The estimates in this table are for flats entered at the DDU. To get corresponding estimates for non-dropship entry volume, an ECR average per pound cost of 17.3¢ (i.e., the avoidable dropship-related cost for mail entered at the DDU) may be added in each case. This figure is USPS witness Crum's estimate (USPS-T-27) of postal cost avoidance for mail entered at the DDU (i.e., the cost difference between non-dropship-eligible mail and DDU mail). This is the estimate that Dr. Haldi recommends for use in developing weight-cost estimates. (VP/CW-T-1, Appendix A)

Table III-1
PER POUND COST ESTIMATES BASED ON ECR FLAT COSTS AND VOLUMES

Case	Assumption	Basic Flats	Hi-D/Sat Flats	All Flats
1	All cost is purely weight-related	38.8¢	25.9¢	33.4¢
2	All cost for pieces over the break-point is purely weight-related	26.8¢	19.9¢	24.3¢

1 The above results for Case 1 represent a "beyond worst case" estimate under
2 the absurd assumption that *all* ECR flat costs are purely weight-related (i.e.,
3 assuming zero piece-related costs). This extreme assumption would result in a per-
4 pound cost of 33.4¢ for DDU dropshipped mail and 50.7¢ for non-dropshipped mail --
5 still lower than the USPS proposed pound rates of 45.0¢ and 58.4¢, respectively.
6 However, no one can doubt that all flats incur some strictly piece-related costs (i.e.,
7 costs related to the number or shape of pieces). Thus, the Case 1 estimates are
8 excessive and unrealistic in the extreme.

9 In Case 2, looking only at flats above the breakpoint, the resulting per pound
10 costs -- 24.3¢ for DDU dropshipped mail and 41.6¢ for non-dropshipped mail -- are
11 substantially less than in Case 1, and also well below the USPS proposed pound
12 rate. However, the Case 2 assumption that the total costs of flats above the
13 breakpoint are purely weight-related is as unrealistic as Case 1, since there are
14 unquestionably significant piece-related costs associated with all mail. Although
15 unreasonably high, these Case 2 costs are still "useful" in that they can serve as an
16 absolute upper limit on the amount of weight-related cost that should be used to
17 develop rates for ECR pieces above the 3.3 ounce breakpoint.

18 As another check, an estimate of weight-related costs may be obtained from
19 the relatively smooth cost curves developed from the data I used, as shown in Figures

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- 1 III-1 and III-2.¹⁰ A simple, unweighted regression of those piece cost vs. piece weight
- 2 observations shows a per pound cost of 22.2¢ for Basic-Rate flats and 16.5¢ for High-
- 3 Density/Saturation flats.

Figure III-1

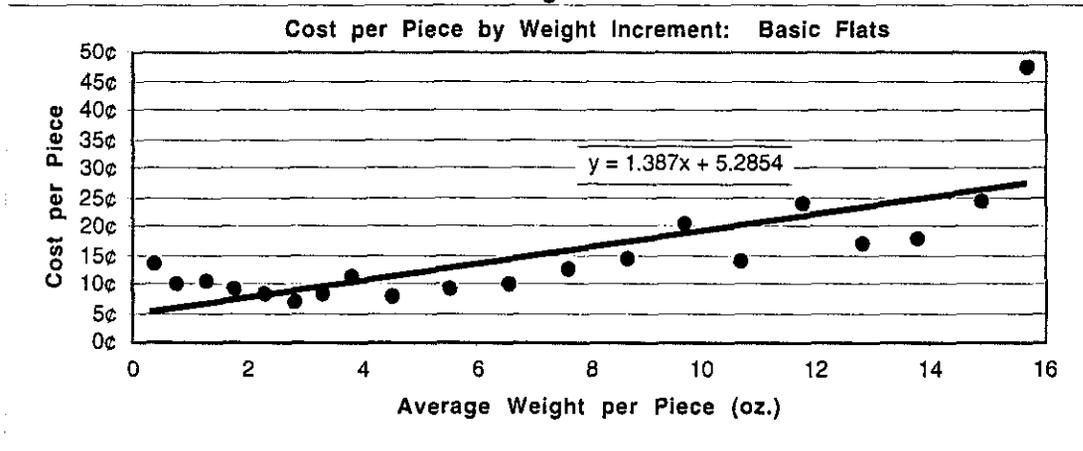
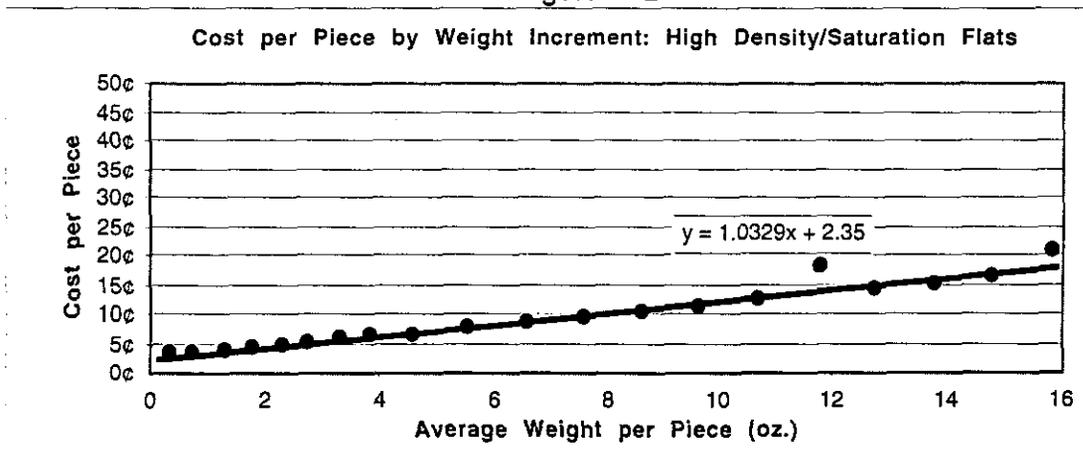


Figure III-2



- 4 These graphs, even with the excessive distribution of costs on the basis of weight,
- 5 show that the costs of ECR flats do not increase nearly as substantially as the USPS
- 6 proposed rates. One can also see that, if those observations were volume-weighted

¹⁰ These costs were adjusted as explained previously, with the exception that there is no dropship adjustment. The costs and the pound cost estimate reflect the actual mix of dropship characteristics in the underlying data.

1 to reflect the fact that over 98% of ECR flat volume is below 8 ounces, the resulting
 2 regression estimates of pound costs would be substantially lower.

3 The excessiveness of the pound rate as compared to the flat cost estimates is
 4 demonstrated in the following table. It shows that costs from the Hi-Density/
 5 Saturation flat curve (unadjusted for dropship level) do not increase nearly as steeply
 6 as the USPS proposed rates.

Table III-2
 ECR HI-DENSITY/SATURATION FLAT COSTS AND POSTAL CHARGES

Average Piece Weight	Average Piece Cost	Weight Increase	Cost Increase	Postage Increase (Non-Drop Shipped)	Postage Increase (DDU)
3.29 Oz.	6.17¢				
6.60 Oz.	8.55¢	100.6%	38.6%	81.6%	77.2%
9.65 Oz.	11.46¢	193.3%	85.7%	156.8%	148.4%
13.78 Oz.	15.40¢	318.8%	149.6%	258.6%	244.8%

7 The same general comparison may also be made for Basic Rate flats. For both High-
 8 Density/Saturation and Basic Rate flats, it is clear that there is a substantial and
 9 increasing margin between their weight-related costs and the USPS proposed pound
 10 rate.

2. Estimates Based on Cost and Weight Differences Between ECR Letters and Nonletters.

11 One of the most critical factors bearing on the weight-cost
 12 relationship is the inter-relationship between shape-related and weight-related costs.
 13 Ideally, an estimate of shape-related cost differences between letters and nonletters
 14 should reflect only those costs that vary solely with shape, and should exclude any
 15 weight-related cost differences. As a practical matter, it is likely impossible to truly
 16 isolate and segregate these two related cost factors. The USPS estimated letter-
 17 nonletter cost differential, in fact, reflects both shape- and weight-related cost
 18 differences. As witness Daniel confirmed:

- 1 • The letter-nonletter cost differential includes the costs for all flats, both
2 above and below the 3.3-ounce breakpoint;
- 3 • Nonletters have an average piece weight three-times greater than letters
4 (2.9 ounces or more for nonletters, compared to less than 1 ounce for
5 letters); and
- 6 • The unit cost differences between letters and nonletters "include not only
7 the effects of shape-related cost differences, *but also* the effects of
8 weight-related cost differences." Tr. 4/1221 (emphasis added).

9 In previous proceedings, I have explained that the average cost difference
10 between ECR letters and flats is due to a combination of shape-related and weight-
11 related cost differences. (See, e.g., ADVO-RT-1, Tr. 32/14924-30, Docket MC95-1).
12 For this reason, when developing the ECR rate structure, it is *inappropriate* to (1)
13 pass through the entire letter vs. nonletter cost difference (at the various density
14 levels) in a piece rate that applies to all nonletters and (2) further require nonletters
15 over the breakpoint to also pay a large weight-related pound rate.

16 In this proceeding, Dr. Haldi equivocates on whether this interrelationship and
17 mismatch between the letter-nonletter cost differential and the weight-related pound
18 costs exists.¹¹ However, in Docket R97-1, Dr. Haldi agreed with this point, and he
19 developed an ECR rate proposal which attempted to avoid this double-counting. He
20 developed two "bottom up" cost scenarios: Case I assumed a high pound cost while
21 Case II assumed a low pound cost.¹² In both cases, the letter-flat per piece cost

¹¹ At the hearing, Haldi said he did not know whether the USPS letter-nonletter cost differences included the effects of weight-related costs; that he was unsure whether the flats costs included all flats up to 16 ounces; and that he had assumed the cost differences reflected only shape-related differences (Tr. 15980-82). However, in response to an earlier interrogatory, he confirmed that the flat costs used in his estimates of letter-flat cost differentials included all flats weighing from 0-16 ounces (Tr. 15922), which necessarily means that his cost differentials include the effects of weight as well as shape.

¹² The "bottom up" costs he developed in R97-1, and his proposed ECR pound rate of 53.0¢ (well below the 58.4¢ USPS proposal here) were actually based on that analysis. VP/CW-T-1, pages 10-20, Appendix A, and response to AAPS/VP-CW- T1-2.

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1 difference was adjusted to reflect the assumed pound cost. (VP/CW-T-1) Based on
2 his analysis of the weight- and piece-related costs reflected in the average letter-flat
3 unit cost differential, Haldi explained why he believed the USPS proposed pound rate
4 of 53¢ was conservative:

5 ". . . the 'moderately high' assumption for weight-related cost in Case
6 I reduces the unit cost of saturation nonletters below the unit cost of
7 letters, regardless of entry point. Since letters everywhere cost less
8 to handle than nonletters, this result is already hard to swallow.
9 *Using even higher pound rates, such as those last approved by the*
10 *Commission, would cause a further reduction in the unit cost of*
11 *nonletters below the correspond cost of letters. In light of these*
12 *considerations, I consider witness Moeller's recommended pound*
13 *rate to be conservative."* (Response to AAPS/VP-CW-T1-2, Tr.
14 27/15172, Docket R97-1, emphasis added) .

15 Despite his current rate proposal and testimony, Dr. Haldi's R97-1 analyses and
16 statements in that regard remain just as true today -- particularly considering that the
17 pound rate reduction proposed in this proceeding is much smaller than the one he
18 found to be "conservative" in R97-1.

19 As a further demonstration of the reasonableness of the proposed pound rate, I
20 developed an analysis similar to Haldi's in R97-1, based on the letter-nonletter
21 average cost differential. To derive that cost difference, I started with the USPS ECR
22 letter and nonletter mail-processing and delivery costs by density level in witness
23 Daniel's testimony (USPS-T-28). Those costs, used to develop the USPS proposed
24 rates, were already adjusted to reflect the non-dropship-eligible mail-processing
25 costs. To those costs, I added the non-dropship-eligible transportation costs. This
26 produces the average total costs for non-dropship-eligible Basic-Rate and Saturation
27 letters and, separately, nonletters. (Only Window Service costs, which are relatively
28 minor for ECR, are excluded from those average total costs.)

29 I then assumed, for each rate category, that the *entire* letter-nonletter cost
30 difference was due *solely* to the average weight difference between letters and
31 nonletters. Or in other words, that the letter-flat cost difference was *purely* weight-

- 17 -

1 related, with zero shape-related costs. I then divided the letter-nonletter cost
 2 differences by the weight differences to derive, for each rate category, an estimate of
 3 the total weight-related cost for nonletters exceeding the breakpoint weight, under this
 4 extreme assumption that the cost differences were 100% weight-related. The
 5 resulting implied per-pound costs are set forth below:

Table III-3
 PER POUND COST ESTIMATES BASED ON LETTER-NONLETTER DIFFERENCES

Letter-Nonletter Differences:	Average Piece Cost Difference	Average Piece Weight Difference	Per Pound Cost Estimate
Basic Rate - Non-Dropship-Eligible	3.57¢	2.67 oz.	21.42¢
Basic Rate - DDU	0.69¢	2.67 oz.	4.14¢
Saturation - Non-Dropship-Eligible	2.15¢	1.98 oz.	17.41¢
Saturation - DDU	0.02¢	1.98 oz.	0.13¢

6 Note: Mail processing costs from USPS LR I-96, dropship costs from USPS LR I-175, delivery
 7 costs from USPS-T-28 (Table 7), average weight from ADVO/USPS-T28-11.

8 These costs indicate that if, at particular volume density and entry level, letters
 9 are always the same or lower cost than nonletters, then the average cost difference
 10 between those letters and nonletters must be due strictly to either shape or weight. If
 11 the cost difference is due strictly to weight, then letters and nonletters with the same
 12 piece weight cost the same and the entire average cost difference between letters
 13 and nonletters (at the same density and entry level) must be weight-related. The
 14 estimates presented above assume that the entire average cost difference between
 15 letters and nonletters is weight-related. Even under this conservative assumption, the
 16 resulting pound costs are only a fraction of the USPS proposed pound rates.

B. At the USPS Proposed Rates, ECR Nonletters Will Make A Greater Contribution to Institutional Cost Than Letters.

17 Because the letter-nonletter cost difference is due to both shape *and*
 18 weight, passing through anything close to 100% of the difference in the piece rate

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1 differentials, while also maintaining the high pound rate, results in a double-counting
 2 of weight-related costs: first, as a partially weight-related surcharge in the form of a
 3 supposedly shape-related piece rate differential; and second, in the pound-rate that
 4 applies only to non-letters. For saturation mail, the Postal Service here proposes a
 5 very substantial passthrough of the letter-nonletter cost difference, as well as a still
 6 substantial (albeit slightly reduced) pound rate.¹³ Accordingly, even under the
 7 proposed rates, postage for pieces above the breakpoint will still increase
 8 substantially with piece weight:

Table III-4
 COMPARISON OF ECR PIECE WEIGHT AND POSTAGE

	6.6 Ounce Piece	9.9 Ounce Piece	13.2 Ounce Piece
Piece Weight Increase From 3.3 Ounces	100.0%	200.0%	300.0%
Postage Increase - Current Basic Rates	84.5%	169.1%	253.6%
Postage Increase - Proposed Basic Rates	68.7%	137.3%	206.0%
Postage Increase - Current Saturation Rates	97.9%	195.7%	293.6%
Postage Increase - Proposed Saturation Rates	81.1%	162.3%	243.4%

9 The result is that, even under the USPS proposed rates, nonletters will pay a
 10 greater per piece contribution to institutional cost than will letters. Moreover, High
 11 Density/Saturation nonletters will pay the highest unit contribution of any ECR rate
 12 category:

¹³ For saturation mail, the USPS estimated unit costs of 4.781¢ for letters and 5.259¢ for flats. The resulting 0.478¢ cost differential was, during the rate development process, rounded up to a 0.500¢ rate differential, thus passing through 104.6% of the cost difference.

Table III-5
ECR LETTER AND NON-LETTER INSTITUTIONAL CONTRIBUTIONS

	Average Piece Cost	Average Piece Revenue	Average Piece Contribution	Institutional Cost Coverage
Basic-Rate Letters	7.09¢	15.72¢	8.63¢	222%
Hi-Density/Saturation Rate Letters	5.32¢	12.39¢	7.07¢	233%
All Letters	6.57¢	14.73¢	8.17¢	224%
Basic-Rate Nonletters	9.45¢	18.02¢	8.56¢	191%
Hi-Density/Saturation Rate Nonletters	5.31¢	13.97¢	8.66¢	263%
All Nonletters	7.49¢	16.10¢	8.61¢	215%

Notes: TYAR rates, costs, volumes at USPS proposed rates. Average flats cost is proxy for Nonletters cost. Average costs based on letter and flat costs developed as described above and do not include contingency. Average revenue reflects all discounts.

On average, even with the rate improvement, nonletters will pay a per-piece contribution that is almost a half penny (0.44¢) greater than letters. For High-Density/Saturation mail, the contribution disparity is even greater. Nonletters will pay almost 1.6¢ per piece more in contribution than do High-Density/Saturation Letters. This is the direct result of the combination of passing through a large portion of the letter-nonletter cost differential *and* still retaining a high pound rate.¹⁴

In sum, the above demonstrates that (1) the USPS rate proposal represents only a moderate improvement toward efficient rates, and (2) the cost data support an even greater reduction in the pound rate.

¹⁴ This circumstance would only be exacerbated by Haldi's recommendations to further expand the Letter-Nonletter piece rate differential and also retain the current high pound rate for Nonletters over the 3.3-ounce breakpoint. (This is discussed in Section V.) It would also be directly contradictory to his rate design principle of equal unit contribution within a subclass. (USPS/VP-CW-T1-23, Tr. 32/15936)

C. The USPS Proposed ECR Rate Structure Will Enhance, Not Impair, The Competitive Process.

1 Witnesses White and Tye criticize the Postal Service's proposed improvements
2 to the ECR rate structure by claiming that there will be a detrimental effect on
3 competition. To them, the "detrimental rate effect" is the possibility that some of their
4 volume may be diverted, if they do not respond competitively to the improved postal
5 rate structure. Mr. White even implies that private delivery may be facing below-cost
6 competition. However, Dr. Tye makes no such suggestion because he cannot. Given
7 Dr. Tye's many other criticisms, this is a particularly notable exclusion from his long
8 and varied list.

9 The response to their criticisms is two-fold. First, because it is an improve-
10 ment that more closely aligns rate structure with cost structure, the USPS rate
11 proposal will benefit all advertisers and consumers.¹⁵ It will make the print
12 advertising distribution market more competitive by forcing its private distribution
13 competitors to become more efficient and innovative. It will encourage delivery
14 innovation and efficiency, enhance investment and entry into the retail and service
15 markets, increase useful information to consumers, and reduce consumer prices for
16 retail products and services. It will encourage allocative, productive, and dynamic
17 efficiencies in the national economy.

18 Second, the proposed ECR rates are substantially greater than their marginal
19 costs and, in fact, cover substantially more than ECR incremental costs and make a

¹⁵ See, for example, the discussions by witnesses Buckel (SMC-T-1), Merriman (SMC-T-2), Smith (AISOP-T-1), and Baro (AISOP-T-2). These witnesses describe the value of saturation print advertising to large and small business and to the consumers who receive the material. That value does not depend upon whether the advertising is delivered by the Postal Service, the newspapers, or private delivery firms. However, it is important that the prices for distributing that advertising are based on cost and do not inefficiently exclude advertisers or consumers who value the delivery/receipt of such material. That is the competitive process.

1 large contribution to institutional costs. Simply stated, there is no harm to the
2 competitive process if rates are in excess of their incremental costs. However, it is
3 important to recognize that a policy of maintaining ECR rates at such a high level
4 results in a form of "umbrella pricing" which protects distribution competitors,
5 inefficiently excludes certain advertisers and consumers, and causes ripples
6 throughout the national economy.

7 Mr. White tries to cast doubt on the above by implying (without substantiation)
8 that private delivery companies may be facing below-cost competition. However, an
9 examination of the "rate-card" rates that Mr. White's organization (Distribution Systems
10 of Oklahoma, DSO) charges for saturation advertising distribution should reassure
11 the Commission that (1) the USPS proposed rates are substantially greater than
12 those of its competitors and (2) the USPS cost structure to serve ECR mail is less
13 weight-related than is its proposed rate structure. In addition, it should be noted that
14 DSO, unlike the USPS, has the flexibility to revise its rates to accommodate various
15 advertiser conditions (e.g., price sensitivity, number of addresses covered, frequency
16 of program).

17 **The DSO Rates and Rate Structure.** For high-density/saturation flat pieces 6
18 ounces and below, DSO's prices are lower, in every case, than those proposed by the
19 USPS for ECR Saturation DDU Non- Letter rates.¹⁶

¹⁶ These rates apply to independent shopper and buyers guide publications (i.e., publications not affiliated with the Oklahoman newspaper) and cover the inserts included within the publication. (ADVO/AAPS-T1-6 and 12, Tr. 22/9974, 9980-02) Although DSO's rates beyond 6 ounces are not on the record, it is obvious that they must be even lower than those of the Postal Service. This is because Mr. White states that the typical flat size piece carried by private delivery weighs roughly 7 to 9 ounces and the relevant market is saturation material weighing five ounces and above. (USPS/AAPS-T1-4, 7, 9, Tr. 10003, 10006, 10008))

Table III-6
COMPARISON OF DSO AND USPS (PROPOSED) SATURATION RATES

Piece Weight	DSO Rates		USPS Rates		USPS vs. DSO Difference in Cents (Percent USPS Rates Greater than DSO Rates)			
	10,000 Pieces	282,000 Pieces	DSCF	DDU	USPS DSCF to DSO 10,000	USPS DSCF to DSO 282,000	USPS DDU to DSO 10,000	USPS DDU to DSO 282,000
2 Oz.	10.80¢	7.30¢	12.60¢	12.00¢	1.80¢ (16.67%)	5.30¢ (72.60%)	1.20¢ (11.11%)	4.70¢ (64.38%)
3 Oz.	10.80	7.30	12.60	12.00	1.80 (16.67%)	5.30 (72.60%)	1.20 (11.11%)	4.70 (64.38%)
4 Oz.	10.80	7.30	14.70	14.05	3.90 (36.11%)	7.40 (101.37%)	3.25 (30.09%)	6.75 (92.47%)
5 Oz.	12.00	8.50	17.68	16.86	5.68 (47.29%)	9.18 (107.94%)	4.86 (40.52%)	8.36 (98.38%)
6 Oz.	13.50	9.00	20.65	19.68	7.15 (52.96%)	11.65 (129.44%)	6.18 (45.74%)	10.68 (118.61%)

1 Source: USPS/AAPS-T1-15 and ADVO/AAPS-T1-12 for DSO rates, Tr. 22/10015, 9980-82;
 2 USPS-T-35 for USPS proposed rates.

3 When viewing this comparison, it is important to note that over 94% of USPS
 4 saturation flat volume falls within the 0 to 6 ounce weight increment. Thus, this rate
 5 comparison covers the vast majority of USPS saturation flat volume that could be
 6 affected by the USPS reduction in the pound rate. It also demonstrates that USPS
 7 proposed rates are substantially greater than DSO's rates for apparently comparable
 8 pieces; and, as pieces become heavier, the disparity between the USPS and DSO
 9 rates becomes greater.

10 Since DSO's rates may be considered one measure of standalone high-
 11 density/saturation print advertising distribution costs, it appears that the USPS
 12 saturation rates may be in excess of their competitive standalone costs.¹⁷ This is
 13 borne out by the fact that high-density/saturation mailers, such as ADVO, have recently
 14 established private delivery operations in selected areas.

¹⁷ From a stand-alone viewpoint, it is also especially interesting to note that DSO pays its independent contractor-carriers anywhere from 10¢ to 30¢ a piece for phone books which it indicates weigh more than 16 ounces per piece, on average. (USPS/AAPS-T1-17 and MOAA/AAPS-T1-1, Tr. 22/10017, 9990-91)

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1 Separately, DSO's rates provide some insight into its cost structure. For
2 example, like the USPS, DSO also has a breakpoint rate structure -- but with 5 ounces
3 as the breakpoint.¹⁸ Further, the implicit DSO charges for additional weight for
4 saturation pieces above its breakpoint, at least for the 5 to 6 ounce increase, are not
5 nearly as great as those proposed by the USPS (i.e., 1.5¢ per additional ounce vs, a
6 proposed 2.8¢ to 3.0¢ per ounce for USPS DDU or DSCF mail). Because of that low
7 marginal rate for additional weight, DSO's rates increase only moderately with piece
8 weight and not nearly as much as those proposed by the USPS.

IV. CRITICISMS OF THE USPS ECR WEIGHT-COST STUDY DO NOT INVALIDATE THE USPS RATE STRUCTURE PROPOSAL.

9 Although the AAPS, NAA, and VP/CW witnesses offer a number of criticisms of
10 the USPS ECR weight-cost study, those criticisms are not only exaggerated but
11 relatively simplistic and misleading. When assessed clearly in terms of operational
12 realities and ratemaking requirements, those criticisms are insupportable and cannot
13 invalidate the weight-cost study's key conclusion: piece costs increase only
14 moderately with piece weight, and there is clearly not a one-to-one relationship
15 between piece weight and piece cost.

16 Because the effect of weight on costs is intertwined with other mail
17 characteristics and cost factors such as shape, it would be extremely difficult if not
18 impossible to perfectly isolate and precisely identify all the cost interrelations. For that
19 reason, any study is going to have, at some level, some technical imperfections for
20 opponents to take pot shots at. The same is true of the USPS weight-cost study.
21 However, although it is not "perfect," it is a "good" study, based on the total ECR
22 attributable costs and billing determinants, that can be related to the average shape

¹⁸ When one reviews the USPS weight-cost curves, one can easily see why 5 ounces, rather than 3.3 ounces, is a better breakpoint.

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1 and density level unit costs used to develop ECR piece rates. As a result, together
2 with the analyses provided in Section III above, it provides a strong and reliable
3 indication of the direction in which the ECR nonletter piece- and weight-based rates
4 should go: downward.

5 Since Dr. Haldi's qualitative analysis of the weight-cost study is the most
6 elaborate, I begin with an assessment of it, followed by comments on Mr. White's
7 criticism of the USPS city carrier out-of-office costing and, finally, Mr. Tye's general
8 critique of the USPS weight-cost study.

A. **Haldi's Qualitative Analysis of the Weight-Cost Relationship
Overstates The Effect of Weight.**

9 Dr. Haldi offers a spectrum of criticisms of the USPS weight-cost study.
10 However, they revolve around two general points. The first involves his apparent belief
11 that bulk mail handling operations vary on a one-for-one basis with mail weight and
12 therefore weight-related costs should be greater than the USPS study shows. The
13 second is that the weight-cost relationship for each general category of ECR mail
14 should be separately identified so that a precise matching of weight-related and
15 piece-related costs can be made for each rate category. With respect to the first
16 general point, I explain below that bulk mail handling operations are generally less
17 than 100% variable with weight because of the substantial scale economies
18 associated with bulk container handlings.

19 With respect to the second general point, Section III above demonstrates that
20 the ECR weight cost study can be disaggregated by shape and density level, and can
21 be related to the entry-level modeled costs. For ECR flats, which are the bulk of the
22 nonletter rate category, the weight-cost relationships for both Basic-Rate and High-
23 Density/Saturation-Rate volume show the same result: piece costs increase only
24 moderately with piece weight. (See Figures III-1 and III-2.)

1. **Analysis of the Marginal Effect of Volume and Piece Weight on Bulk Handling Costs.**

1 Dr. Haldi's qualitative discussion of the weight-cost effect
2 suggests that there is a one-for-one relationship between changes in mail weight and
3 changes in the number of bulk mail handlings. By implying that all bulk containers
4 are filled to capacity and that additional weight always causes additional bulk
5 containers of the same type,¹⁹ he gives the impression that there is a one-for-one
6 relationship between changes in mail weight and changes in work related to the bulk
7 mail container (i.e., that the variability of such container handlings is 100 percent) and,
8 thus, that there are substantial weight-related costs associated with such bulk mail
9 handlings. His analysis of these bulk costs is not only overly simplified but
10 misleading.

11 For ratemaking purposes, it is important to identify how average piece cost
12 changes when either (a) piece volume changes or (b) piece weight changes. When
13 mail is handled in bulk (i.e., in bundles, containers, transportation vehicles, carrier
14 satchels), the related costs are a function of total weight. A change in either piece
15 volume or piece weight will affect total weight and since bulk handling and
16 transportation costs are sensitive to total weight, Dr. Haldi focuses on bulk handling
17 costs.

18 However, he glosses over the fact that bulk handling costs are characterized by
19 large scale economies, as follows:

- 20 • Since the cost to handle a bulk container is principally fixed with respect
21 to the number of pieces or amount of weight inside the container
22 (especially when the handling is mechanized and there are fixed or
23 semi-fixed set-up costs), increasing the number of pieces or average
24 piece weight simply reduces the per piece or per pound cost. In other
25 words, as long as there is excess capacity in bulk containers, the

¹⁹ VP/CW-T-1, Appendix B, pages B-7 through B-15.

1 variability of bulk handling costs with either piece volume or piece weight
2 is less than 100 percent.

- 3 • Bulk containers have maximum weight constraints but most Standard A
4 mailings are handled in containers that do not reach those weight
5 constraints. There are several reasons for this: the individual needs of
6 mailers, mailer preparation requirements imposed by the Postal
7 Service, USPS service and dispatch requirements, and the variety of
8 destinations to which mail ultimately is delivered (i.e., zips, routes, stops,
9 deliveries). Accordingly, the average bulk mail container contains
10 excess capacity, and additional piece volume or weight in such
11 containers actually decreases per piece or per pound cost.
- 12 • Bulk containers generally also have a minimum weight constraint; and
13 larger, more efficient-to-handle containers are generally used when mail
14 to a particular destination reaches sufficient total weight. Accordingly,
15 additional volume or weight may actually cause the mailing to be placed
16 in larger capacity, more efficient containers, which also decreases per
17 piece or per pound cost. The fact that increased weight (either in the
18 form of pieces or piece weight) permits the use of more efficient (lower
19 per-piece cost) containerization also contributes to the scale economies
20 associated with handling bulk containers. It also means that variability
21 of bulk handling cost is even less than if one assumes that there can be
22 no change in the type of bulk container (as above).

23 In sum, these large scale economies explain why, even at a specific ECR
24 density level, costs increase at a much slower rate than do piece weights. Thus,
25 costs increase much less than weight, as the USPS weight study indicates. The
26 scale economies also explain why, at the High-Density/Saturation level, per piece and
27 per pound costs (and piece and pound rates) are lower than at the Basic-Rate level.

28 Finally, scale economies in bulk handling operations may not be entirely
29 reflected in the USPS estimate of variable cost for in-office bulk operations. This is
30 because the Postal Service has really not conducted a true variability analysis for
31 allied and dock handling operations where the majority of bulk handlings related to
32 ECR would occur. A true variability analysis would involve a measure of the extent to
33 which the number and type of containers vary with volume and weight and this has not

1 been done. Accordingly, the bulk handling costs that are included in the USPS
2 weight-cost study are likely far greater than their true variable costs.²⁰

3 This last point is an important observation. Despite the facts that ECR bulk
4 mail processing costs are likely overstated and that the Postal Service used
5 conservative assumptions in distributing costs among the piece weight cells (e.g.,
6 distributing an overstated elemental load cost on the basis of weight), the weight-cost
7 study still shows that cost increases only moderately with increasing piece weight.

2. Diversity and Averaging Within the Subclass.

8 Some of Dr. Haldi's recommendations to the Commission
9 appear inconsistent with his analyses with respect to diversity within the subclass.
10 He explains in detail why, because of diversity in mailing characteristics within the
11 subclass, there are likely to be multiple weight-cost relationships within the ECR
12 subclass. And, in part because the USPS weight-cost study does not separately
13 recognize those diverse weight-cost relationships, he recommends that the
14 Commission reject the Postal Service's proposed reduction in the pound rate for
15 nonletters over the 3.3-ounce breakpoint. Given his comments in this regard, he
16 appears very concerned that rate structure be carefully aligned with cost structure.
17 However, those concerns are inconsistent with the following:

- 18 • **The Application of Averaging**
19 Dr. Haldi rejects a reduction in the pound rate because its underlying
20 cost analysis was not disaggregated by mail type; but, at the same time,
21 he proposes ECR rates that include a single set of pound rates which
22 apply to all ECR density- and entry-related rate categories.

²⁰ See, e.g., USPS-T-16, page 69 where witness Degen states: "My analysis of the allied operations indicates that the allied operations have lower volume-variabilities than the distribution operations. . . . To compensate for the use of 100 percent volume-variability for the allied cost pools, the not handling tallies in those pools are distributed to subclasses using a key developed from all cost pools in Cost segment 3.1." Allied operations include platform, opening, and pouching, which are all container-related bulk.

- 1 • **Relationship of the Standard Regular and ECR Pound Rates**
2 Dr. Haldi emphasizes that increasing levels of presortation/density are
3 accompanied by lesser amounts of weight-related cost. However, he
4 then recommends for ECR -- the most presorted and destination-dense
5 mail in the system -- a pound rate that is only negligibly less than that for
6 the far less presorted Standard A Regular mail.

7 His concern with cost and rate alignment seems at odds with his rejection of
8 the moderate improvement the Postal Service is proposing to the ECR rate structure
9 and with his direct testimony on "bottom up" costs in R97-1. There is clear and
10 undeniable evidence that (1) the pound rate increases much more rapidly than piece
11 costs with piece weight and (2) the effect of weight on costs declines substantially
12 with worksharing. With such clear information and the moderate rate improvement
13 being proposed by the Postal Service, it is not necessary to have perfect data, but only
14 to know the general direction in which to proceed. Moreover, the pound rate, since it
15 applies to all ECR density- and entry-related rate categories, should represent the
16 weight-cost relationship for the mix of volumes to which it applies.

17 Separately, Dr. Haldi's comments concerning the diversity of weight-cost
18 relationships within the subclass provide a very good demonstration of why it may be
19 extremely difficult, if not impossible, to precisely identify weight-cost relationships (and
20 quantify with precision all weight-related costs) that will fully satisfy all parties. Within
21 ECR, there is a diversity of mail characteristics and, within the USPS system, there is
22 a diversity in the way in which mail flows through and is handled. That is the strength
23 in an IOCS-type analysis that Dr. Haldi and Dr. Tye criticize: it captures the effect of all
24 the diversity. (By their very nature, IOCS tallies record precisely the operations and
25 types of pieces, items, and containers involved and the tallies are themselves time-
26 weighted.) But, such diversity is also the reason why it would be exceptionally difficult
27 (if not impossible) to identify system-wide, rate-category-specific, weight-related costs
28 through an industrial engineering, modeling or some other non-IOCS-type approach.
29 Insistence on such full-scale and precise analysis before permitting even a moderate

1 reduction in the pound rate is essentially a guarantee that the obviously excessive
2 pound rate will never be reduced.

3 **3. Treatment of Not Handling and Mixed Mail IOCS Tallies.**

3 Dr. Haldi's criticism of the weight-cost study's distribution of not-
4 handling and mixed mail IOCS tallies on the basis of direct tallies is relatively
5 simplistic. He suggests that those tallies should be distributed among the piece
6 weight cells on the basis of weight rather than on the basis of direct tallies. His
7 criticism appears to be based on the assumptions that (1) the number (and cost) of
8 bulk handlings varies 100% with weight (number of pieces times average piece
9 weight); and (2) all direct tallies are purely piece-related.²¹ He also assumes that
10 not-handling tallies are all associated with bulk handling operations.

11 I have already explained that the first assumption is incorrect: bulk handling
12 scale economies mean that bulk costs do not increase on a one-to-one fashion with
13 either piece weight or total weight. In some cases, average piece cost declines with
14 increasing mail weight. For example, volume-density level varies inversely with bulk
15 handling requirements (i.e., weight-related operations). This is not only due to scale
16 economies in bulk handling but because, when total weight to a particular destination
17 increases, more efficient containerization is used and postal bulk handlings and
18 transportation are bypassed.

19 This can, in turn, be related to the IOCS direct handling tallies for mail
20 processing. Some direct handling tallies are associated with bulk handlings or
21 identical items and containers. Given ECR's mail preparation requirements and the
22 fact that ECR does not usually need to be sorted at the mail processing facility, the

²¹ If all else were equal, and there were only variation in total weight, and if the number of container handlings increased proportionately with total weight, then bulk handlings would increase more rapidly than single piece handlings. Under that scenario, piece cost would increase with piece weight.

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1 majority of bulk handlings should be for identical items or containers. For those direct
2 handling tallies, piece weight is identified and is appropriately used in the weight-cost
3 study distribution key for mixed mail/not handling tallies.²² However, if there is ECR
4 volume in a mixed mail container, then it is likely to be volume entered further
5 upstream in the USPS system. And, because lighter mailings typically are entered
6 much further upstream than their heavier-weight counterparts, their pieces are
7 generally the ones that are handled individually by clerk/mailhandlers or found in
8 mixed mail containers. So, to some extent, mixed mail tallies involving lighter-weight
9 ECR mailings are distributed on the basis of (1) heavier piece weight direct handling
10 item/container tallies and/or (2) lighter piece weight direct handling individual piece
11 tallies.

12 In fact, it is possible that, for ECR, the use of direct handling item/container
13 tallies as a distribution key overstates the effect that heavier-weight mailings have on
14 mixed mail costs (and understate the effect of lighter-weight mailings). Given these
15 realities, the use of IOCS direct tallies as distribution keys for the mixed mail
16 (including empty container handling) and not-handling tallies (already allocated to
17 ECR shapes and density levels) appears reasonable.

18 With respect to not handling tallies, Dr. Haldi apparently assumes that they are
19 all associated directly with bulk handling operations. (And, to the extent that some of
20 them are directly associated with bulk handling operations, my comments above
21 apply.) However, it appears that not handling tallies are just that -- measures of time

²² Direct tallies reflect the proportion of labor time by subclass and shape incurred for the handling of individual pieces, items and containers with identical or counted pieces of mail, and items where the top piece rule applies. (USPS-T-17, page 13) Because these tallies indicate the volume by subclasses, shapes, and piece weights that is (was or will be) in mail containers, they are simply used as proxies to identify the subclasses, shapes, and piece weights that are (were or will be) in containers for which the subclass/shape information was not identified or in empty containers.

1 when neither mail nor mail equipment are being handled in any operation (and not
2 just bulk handling operations). Given that perhaps much of that time may be related
3 to maintaining labor capacity to handle service commitments, it is extremely arguable
4 as to how much of that total system time should even be allocated to ECR non-letters,
5 given their deferability, much less considered weight-related as opposed to piece-
6 related.²³

**B. White's Carrier Out-of-Office Cost Arguments Are Unsupported
By His Own Example And Refuted By USPS Data.**

7 AAPS witness White alleges that weight has a large impact on city carrier
8 out-of-office costs for walking time. As his only support for this contention, he offers
9 an "example" of the effect of weight on his own company's private delivery operations.
10 He also rejects the conservative weight-cost assumption that 84% of attributable out-
11 of-office carrier costs are weight-related²⁴ could compensate for any possible weight
12 impact on walking time.

13 To begin with, his own example -- purportedly showing the effect that added
14 weight has on his carriers' walking time -- does not demonstrate the effect that he
15 claims even for his own private delivery operations. Second, in the case of Postal
16 Service delivery operations, there is convincing data that conclusively refutes the
17 notion that weight has any significant impact on walking time.

18 In his example, White claimed that a 1/2-ounce increase in the weight of his
19 TMC product caused his carriers to have to walk an additional 100-200 miles per year
20 to restock their satchels. Tr. 9960, 9988. In cross-examination, however, White
21 conceded that his carriers, on average, carry about 15 pounds of materials per loop,

²³ See, e.g., TW-T-1, pages 26 ff, Tr. 24/11373 ff..

²⁴ The percentage is calculated as the ratio of elemental load time to the sum of elemental load plus route plus access time. Since street support is a burden on those three components plus in-office time, Ms. Daniel's analysis also implicitly assumes that approximately 84% of that time also varies with weight.

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1 filling only about 50% of the available satchel capacity, and that the added "extra
2 weight" amounted to only about 1 (one) extra pound per walking loop. Tr. 10050-56.
3 Thus, in the end, his example undermines his cost assertion, showing instead that
4 incremental weight can normally be accommodated by excess satchel capacity with
5 little or no impact on cost.

6 In postal delivery, weight has little effect on carrier loop- and dismount-related
7 walking time. This is principally for the same reasons explained for in-office bulk
8 processing. When mail is handled in bulk, there are scale economies and, unless
9 capacity limits are reached, the variability of bulk handling with piece volume or weight
10 is extremely low. Further, there are substantial out-of-office costs which vary strictly
11 with piece volume (e.g., city delivery access and coverage-related load time, and the
12 entirety of rural delivery costs).

13 This is also demonstrated from available USPS data. In Docket R97-1, I
14 presented data showing that the average city carrier walking loop covers only 25.1
15 actual stops.²⁵ Based on an over-stated estimate of approximately 12.5 ounces of
16 mail per stop in 1986 and 12.8 ounces in 1996,²⁶ a carrier would have an average of
17 20 pounds of mail per loop, far below the 35-pound limit and leaving ample capacity
18 to accommodate a marginal increase in piece weight. This considerable excess
19 satchel volume/weight capacity means that a marginal increase in piece weight

²⁵ ADVO-RT-1 at 17-23, Tr. 34/18325-31, Docket R97-1. These data were from a 1986 Foot Access Test, taken from a representative sample of park and loop routes.

²⁶ This estimate was based on CCS data for all stop types, including multiple delivery residential and business and mixed stops which typically have substantially more volume/weight per stop than do single delivery stops. Thus, the volume/weight per stop estimates were over-stated.

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1 should have no effect on the number of loops or any other carrier activities which
2 depend upon the number of loops.

3 I also explained that the relatively low average number of stops and weight per
4 loop are the result of route and loop structuring caused by two piece-related workload
5 drivers: (1) in-office time to case volume and (b) the number of stops and deliveries
6 which must be covered. Route and loop structuring is also affected by non-volume-
7 related conditions of the geographic coverage area. Such non-volume-related
8 conditions include the manner in which addresses are grouped, special service
9 requirements for particular addresses, traffic patterns, parking availability, safety,
10 terrain, and maintenance of contiguous addresses within a route. Further, the
11 structuring must account for interspersed dismount and curblin deliveries.
12 Accordingly, excess weight capacity is not deliberately designed into loops but is an
13 incidental byproduct of other more important route restructuring considerations.

14 Separately, carriers and their supervisors have to deal with daily variations in
15 volumes. If there is a large amount of volume/weight to deliver on a particular day,
16 ECR saturation mailings, because of their deferability, actually give the carriers more
17 flexibility to deal with unexpected volumes than do mailings of other classes. The
18 combination of the excess delivery-weight capacity in the system and the flexibility to
19 deal with unexpected or unusually large mail volumes/weights through deferral of all
20 or portions of a saturation mailing, demonstrates that weight has a small effect on
21 postal carrier out-of-office costs.

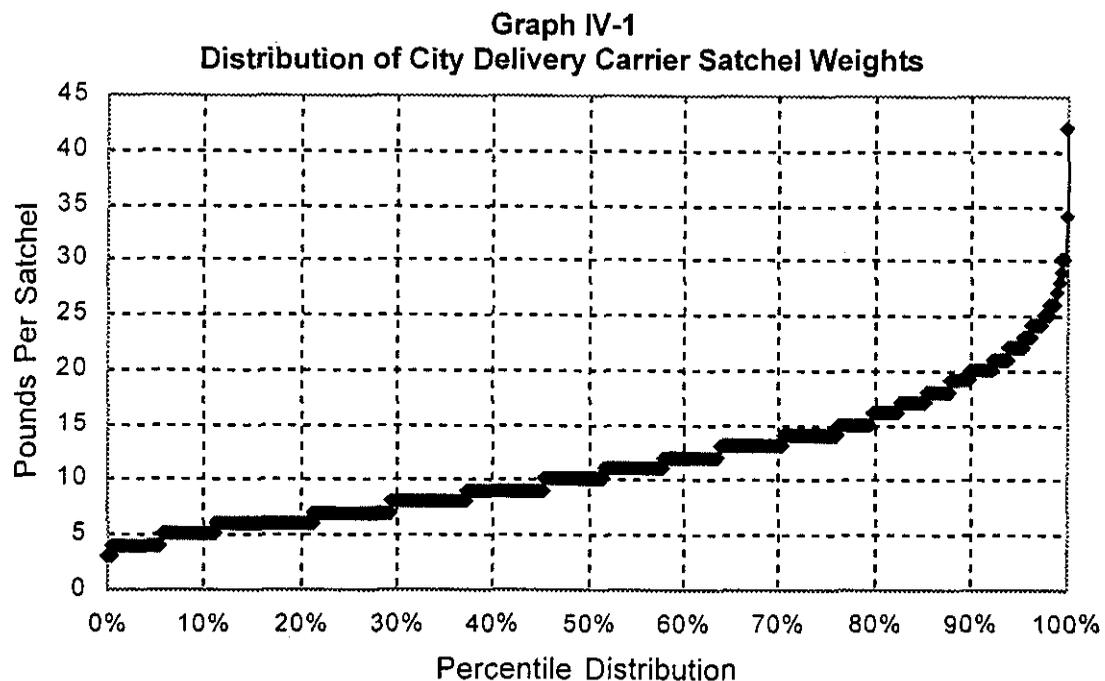
22 Given the above explanation, it is not surprising that the Postal Service does not
23 routinely collect weight data for city delivery carrier operations.²⁷ However, there is
24 now additional support for the loop stop/volume data and the explanations that I
25 presented in R97-1. The Engineered Standards Database provided by USPS witness

²⁷ Response to ADVO/USPS-6.

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1 Raymond gathered data on satchel weights for loops on city carrier park and loop
 2 routes.²⁸ A total of 1,270 satchels were weighed, with an average satchel weight of
 3 11.3 pounds. This is far less than the average of 20 pounds I estimated in R97-1,
 4 and only about one-third of the 35-pound satchel limit.

5 The distribution of those satchel weights, shown below, provides further
 6 quantitative evidence refuting White's claim about the effect of weight on USPS carrier
 7 walking time:



8 As this graph shows, about 90% of the satchels weighed 20 pounds or less. This
 9 clearly indicates substantial excess weight capacity in carrier satchels, and provides
 10 additional quantitative support to my operational explanation of why carrier walking
 11 time does not vary with weight.

²⁸ These data were provided in USPS-LR-I-329 in response to ADVO/USPS-4. The satchels were weighed at the start of the loops.

C. Tye's Nitpicks of the ECR Weight-Cost Study Overlook the Big Picture.

1 Even more so than Dr. Haldi, Dr. Tye generates a number of "scatter-
 2 shot" criticisms of the USPS weight-cost study, but his are even more superficial.
 3 Also, like Haldi, he recommends that even moderate ECR rate structure
 4 improvements be postponed until the Commission receives a weight-cost study that
 5 offers a level of precision that satisfies his unspecified (and probably impossible)
 6 requirements. As explained before, the level of precision demanded by Drs. Haldi
 7 and Tye is not required to support the extremely moderate USPS proposed
 8 improvements.

9 However, Dr. Tye presents a few criticisms that warrant comment because they
 10 actually demonstrate an important costing/ratemaking point that he (and Dr. Haldi)
 11 ignore.

12 • **Thin IOCS Tallies at Higher Piece Weight Levels**

13 One of his more prominent points is that there are relatively few IOCS
 14 tallies for ECR in some of the higher-piece-weight cells. He implies that
 15 the "thinness" of the tallies in those weight cells means the weight-cost
 16 study is unreliable.

17 • **Parcel Cost Anomalies**

18 He appears to be very concerned over the unit cost differences between
 19 ECR Regular and Non-Profit parcels and claims that the disparity is
 20 likely caused by IOCS tally thinness.

21 • **The Discontinuity Between Standard A and B and its Effect on the 15-
 22 16 Ounce Weight Cells**

23 Tye (and Haldi also) note that the unit costs in the higher weight cells do
 24 not increase in a perfectly smooth, monotonic manner. Tye also notes
 25 that in the last 15-16 ounce weight cell, costs jump up to a surprisingly
 26 high level, and he criticizes the weight-cost study for "obscuring" this
 27 individual data point by combining some of them to develop regressions.
 28 He suggests that the surprising costs in the heaviest weight cell are due
 29 to volume cross-over of light-weight Standard B into heavy-weight
 30 Standard A ECR.

31 • **Weighting the Weight-Cost Study Piece Cost Observations**

32 Tye appears to criticize the weight-cost study regression results
 33 because the per piece costs by weight cell were not weighted by the
 34 associated piece volume.

1 Each of these criticisms demonstrates the fallacy of constructing an opinion
2 and recommendation based on looking at the results for the least important volume in
3 the outer weight-fringe of the subclass. Dr. Tye focuses on the data and results for
4 the heaviest piece-weight volume and for parcels. Nonletter volume above 8 ounces
5 represents only 1.4% of total ECR volume, while parcel volume represents only 0.14%
6 of the subclass. Volume in the last 15-16 ounce weight cell constitutes less than
7 0.04% (four ten-thousandths) of ECR volume. Moreover, ECR volume, by its very
8 nature does not cause much in-office processing. Accordingly, it is not surprising that
9 there are relatively few IOCS tallies for that type of mail and that there is greater
10 variation in the cost estimates for that type of mail than for the more typical and
11 numerous ECR volume. It also explains why additional, more precise weight-cost
12 studies will be unlikely to capture much improved data for heavier-weight ECR.

13 On the other hand, the estimates for those heaviest-weight cells represent
14 "best estimates" for a very minor portion of the subclass and, despite the fact that the
15 confidence intervals around those estimates are large, there is no reason to believe
16 that they are statistically biased in one way or another. Moreover, despite the
17 unexpectedly large cost in the heaviest 15-16 ounce weight cell resulting from the
18 BY98 IOCS data, all analyses of those costs still demonstrate that the USPS
19 proposed improvements in the ECR rate structure are not only completely supported
20 but also moderate.²⁹

21 Further, Dr. Tye fails to comment on the cost estimates and general weight-
22 cost curves for the vast majority of ECR volume with piece weights below the 8-ounce

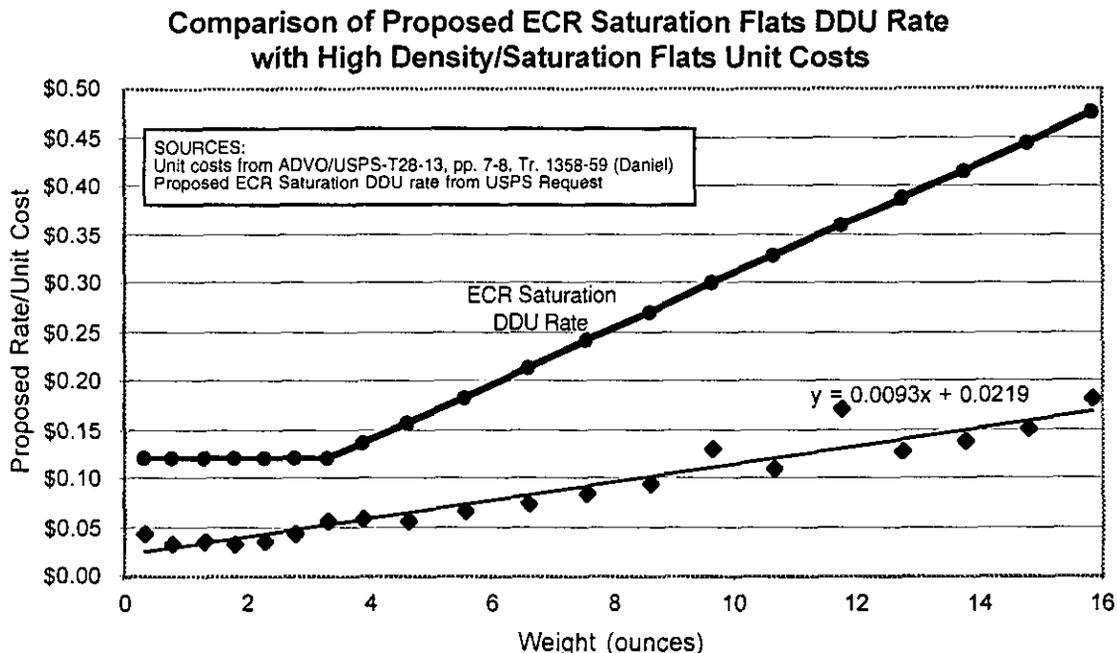
²⁹ With respect to Dr. Tye's explanation of the Standard A ECR and Standard B volume cross-overs, not only does that volume represent an extremely small proportion of ECR volume, but any "problem" which the cross-overs cause should be corrected not by maintaining the ECR pound rate at an unreasonably high level but by revisiting the parcel shape and rate issue for ECR and also by offering mailer-useful presort and dropship discounts for Standard B volumes.

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1 level. In those cases, the weight-cost curves are easy to identify, and the weight-cost
2 behavior is far more important because those pieces represent the bulk of the volume
3 that will respond to the proposed ECR rates. As I explained in my R87-1 testimony
4 (ADVO-RT-1 at 11ff), all of the weight-cost studies conducted over a number of years
5 have shown the same general pattern of cost behavior, particularly for nonletters in
6 the 0 to 8 ounce range. The results of those previous studies are comparable to that
7 seen in Figures III-1 and II-2: a very moderate increase in cost as piece weight
8 increases.

9 Thus, I agree completely with Dr. Tye that Ms. Daniel's regression would have
10 been improved by volume-weighting the weight-cell cost observations. Since the
11 majority of ECR volume that will respond to a change in ECR rates is concentrated in
12 the 3 to 8-9 ounce weight cells, the weight-cost behavior for those volumes are
13 particularly relevant. Performing the volume-weighting would identify more precisely
14 how the impact of a change in weight would affect system-level average ECR piece
15 cost. It also would likely have increased the per piece and reduced the per pound
16 costs derived from Daniel's regression equations.

17 What Dr. Tye failed to do is to look at the *overall pattern* of costs throughout the
18 ECR weight spectrum, especially over the entire 3-16 ounce range where the pound
19 rate applies. The unmistakable trend, as clearly shown in ADVO-XE-T35-2 (Tr. 3987
20 and 14885, reproduced below), is a gradual increase in costs as weight increases:



- 1 Moreover, as this graph also shows, these costs are substantially below the USPS
- 2 proposed rates, with a much more gradual slope. By focusing his attention on
- 3 selected individual weight cells, Tye blinded himself to this obvious pattern of low
- 4 weight-related costs.

V. HALDI'S PROPOSED ECR LETTER-NONLETTER RATE DIFFERENTIALS ARE FLAWED.

- 5 Dr. Haldi proposes to increase the piece-rate differentials between ECR letters
- 6 and nonletters in the High-Density and Saturation categories.³⁰ His proposal is
- 7 based on a flawed analysis of ECR letter and nonletter volumes and costs derived
- 8 from the ECR weight-cost study presented by USPS witness Daniel in USPS LR I-92.
- 9 In his analysis, to correct for what he believes is a misallocation of the costs of heavy-

³⁰ He accepts that ECR Basic-Rate letters and nonletters should have the same rate to encourage letter mailers to enter their mailings as either the ECR Automation or Regular 5-Digit Automation.

1 weight ECR letters to the letter category rather than the nonletter category, he re-shifts
2 costs from letters to nonletters. These costs are associated with letter-shaped
3 volume having piece weights beyond the 3.3-ounce breakpoint. He notes that such
4 "heavy-weight" letters are considered nonletters for rating purposes. Accordingly,
5 using the total letter and flat unit cost estimates from the ECR weight-cost study, Dr.
6 Haldi shifts the "heavy-weight" letter costs away from ECR letters and to ECR flats.³¹
7 He then uses the resulting increase in the letter-flat average cost difference to expand
8 the difference between letter and nonletter rates for pieces below the 3.3-ounce
9 breakpoint. In his rate proposal, he also increases the pound rate for nonletters
10 above the breakpoint.

11 There are two key flaws in Dr. Haldi's analysis.

12 First, he has overstated the effect of heavy-weight letters on the costs for letters
13 and flats (as a proxy for nonletters). But, that is a minor technical matter, easily
14 corrected.

15 Second, and far more importantly, he inappropriately uses his overstated letter-
16 flat adjustment to propose an expanded letter-nonletter rate differential. He does this
17 by inappropriately assuming that the entire letter-flat cost difference is purely shape-
18 (or piece-) related, ignoring the fact that a portion of that cost difference is due to
19 weight. Accordingly, when he sets the letter-flat piece rate differential at 100% (or
20 more) of the letter-flat cost differential, he recovers both the letter-flat shape-related
21 and the weight-related cost differences. Thus, the combination of a 100% (or even
22 slightly less than 100%) passthrough of the average letter-flat cost difference to the
23 flat piece rate, plus a separate pound rate, constitutes double-recovery of the average
24 cost difference between letters and flats.

31 Nonletters includes both flat and parcel volume. However, the vast majority of nonletters are actually flats. Thus, Dr. Haldi's analysis focuses on the flats portion of nonletters.

A. Correction to Haldi's Letter-Flat Cost Differential.

1 As a technical matter, I agree that "heavy-weight" letters are treated as
2 nonletters for rating purposes. However, Dr. Haldi's analysis in this matter requires
3 correction. He only shifts heavy-weight letter costs over and ignores the presence of
4 heavy-weight letter volumes. Further, the USPS LR I-92 costs he uses include (1) a
5 considerable amount of cost allocated on the basis of weight in order to be
6 conservative in estimating the ECR letter and nonletter weight-cost relationships and
7 (2) more than the traditional mail-processing and delivery costs used by witnesses
8 Daniel/Moeller to develop the ECR letter/nonletter rate differentials.

9 Effectively, Dr. Haldi's analysis requires both volume and cost corrections.
10 With respect to the cost correction, I adjusted witness Daniel's ECR costs for letter-
11 and flat-shape volume by eliminating all costs but mail processing and delivery (i.e.,
12 those in Cost Segments 3, 6, 7, and 10) and re-allocated shape-related elemental
13 load costs using pieces as the distribution key. Then both the volume and cost of
14 heavy-weight letters were shifted to flats. To identify the portion of volume over the 3.3-
15 ounce breakpoint in the 3.0 to 3.5 weight cell, I adopted Dr. Haldi's estimate of 40%.

16 My results, shown in Table V-1 below, are significantly less than Dr. Haldi's.
17 He estimates an overall increase in the letter/flat difference of 0.291¢ (over that
18 estimated by the USPS) due to the shift in heavy-weight letters, while my analysis
19 indicates that the average letter-flat difference increases by only 0.077¢:

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Table V-1
VP/CW-T-1 APPENDIX A - ADJUSTED

	ECR Letters Volume (000)	ECR Letters Cost (\$000)	ECR Flats Volume (000)	ECR Flats Cost (\$000)
Total Volume or Cost (LR 1-92)	13,127,962	875,596.0	20,455,078	1,358,631.3
Unadjusted Unit Cost, Cents		6.670¢		6.642¢
Unit Cost Difference, Cents				-0.028¢
Mismatch Adjustment: Overweight Pieces with Letter-Shaped Dimensions				
Estimated Percent of Letters Cost				
Estimated Cost Shifted from Letters to Flats		-14,515.5		14,515.5
Estimated Volume Shifted from Letters to Flats	-126,440		126,440	
Totals After Adjustment	13,001,521	861,080.5	20,581,518	1,373,146.7
Unit Cost Adj. For Mismatch, Cents		6.623¢		6.672¢
Unit Cost Changes, Cents		-0.047¢		0.030¢
Letter-Flat Unit Cost Difference, Cents				0.049¢
Change in Letter-Flat Difference, Cents				0.077¢

B. The Use of an Average Letter vs. Nonletter Cost Differential in Rates.

1 Dr. Haldi presents an ECR rate proposal. In that proposal, at the ECR
2 High-Density and Saturation rates, he passes through virtually all of the letter-flat cost
3 differential to piece rates. Although he revised his original estimate of the amount to
4 be added to the USPS average ECR letter-flat cost differential (from 0.466¢ to 0.291¢),
5 even at his original estimate, he proposed a 94% passthrough for the High-Density
6 and a 95% passthrough for the Saturation levels. With his revised cost estimate, his
7 passthroughs increase immensely, as shown below:

Table V-2
COST AND RATE DIFFERENTIALS AND
PASSTHROUGHS IN HALDI'S VP/CW-PROPOSED RATES

	Based on VP/CW Estimated Letter-Flat Cost Differential:	Based on ADVO Estimated Letter-Flat Cost Differential:
Letter-Flat Cost Differential at High-Density Level	0.571¢	0.357¢
Letter-Flat Cost Differential at Saturation Level	0.769¢	0.555¢
VP/CW Letter-Nonletter Rate Differential At High-Density Piece Rates	0.700¢	0.700¢
VP/CW Letter-Nonletter Rate Differential At Saturation Piece Rate	0.900¢	0.900¢
Cost Passthrough to VP/CW Rates at High-Density Level	122.59%	196.35%
Cost Passthrough to VP/CW Rates at Saturation Level	117.04%	162.31%

1 Note: Based on Dr. Haldi's revised letter-flat cost difference increase of 0.291¢ and the
2 ADVO letter-flat cost difference increase of 0.077¢

3 Combined with his increase in the pound rate (from the USPS proposed level),
4 these large passthroughs gave Dr. Haldi sufficient room to reduce the High-
5 Density/Saturation letter rates from the USPS proposed levels and increase the
6 dropship discounts. However, because the letter-flat unit cost differential includes
7 both shape-related *and* weight-related costs -- and because it would charge flat mail,
8 in the guise of a shape-related surcharge, with weight-related costs that are already
9 over-recovered by the pound rate -- even a 94% to 95% passthrough is excessive.

10 Setting the letter-flat piece-rate differential at virtually 100% of the letter-flat
11 average cost differential effectively assumes that there are no weight-related costs
12 within those average costs. This appears extremely contradictory to Dr. Haldi's belief
13 in the presence of weight-related costs.³² Moreover, coupling this with a high weight-

³² Moreover, it does not comport with the USPS letter-nonletter cost differential, which Haldi expands and passes through to his piece rates. The USPS letter and nonletter costs are developed to reflect the mail processing costs for non-dropshipped mail. Thus, they include weight-related dropship-avoidable mail processing costs. The difference between the letter-nonletter dropship-avoidable costs, in turn, reflects the difference between the letter-nonletter weights.

1 related (pound) rate compounds the problem by recovering the same letter-flat cost
2 difference in two ways: once from the piece rate and once again from the pound rate.
3 This inequitable and counter-intuitive situation only demonstrates why it is important
4 to start moving the pound rate in the right direction – downward.

5 This truth can be seen in the analysis presented in Section III above. Under the
6 Postal Service's proposal and using costs which reflect the shift of heavy-weight letter
7 costs and volumes to flats, nonletter rates will make a larger per piece contribution to
8 institutional costs than letter rates. Under Dr. Haldi's proposal, even more of the ECR
9 contribution would be shouldered by nonletter rates. This result is not only
10 inconsistent with Dr. Haldi's R97-1 convictions but also with his stated ratemaking
11 philosophy of equal unit contributions within a subclass.

12 His proposed rates and accompanying letter-flat piece-rate differentials should
13 be rejected in their entirety.

1 CHAIRMAN GLEIMAN: That brings us to oral cross
2 examination. Three parties request oral cross examination:
3 The Association of Alternate Postal Systems, the Newspaper
4 Association of America, and Val-Pak Direct Marketing
5 Systems/Carol Wright Promotions.

6 Is there anyone else who wishes to cross examine?

7 If not, then Mr. Straus, on behalf of AAPS, you
8 may begin your cross.

9 CROSS EXAMINATION

10 BY MR. STRAUS:

11 Q Ms. Crowder, could you repeat that change to line
12 5 on page 19? I thought you started out saying it now reads
13 and I was waiting for you to get to the change.

14 A Okay.

15 Q I think you read the --

16 A The number has changed.

17 Q Oh, when you said now reads, you mean should --
18 okay.

19 A On line 5, it should read -- the first word is,
20 contribution that is almost a half penny, and that's (0.44)
21 cents. And the rest of it is okay.

22 Q Thank you.

23 Are you proposing any rates in this case different
24 from those proposed by the Postal Service?

25 A No, sir.

1 Q Is ADVO?

2 A No, sir. Not that I -- no.

3 Q Do you think the rates that the Postal Service is
4 proposing are right, are fair, just and reasonable?

5 A I really haven't looked at it that way, to tell
6 you the truth. I wasn't asked to look at it like that. I
7 believe ADVO is agreeable to the rates that have been
8 proposed, but I haven't made any judgment like that.

9 Q Have you analyzed the appropriateness of the
10 present postal rates?

11 A Appropriateness for what?

12 Q Whether they're warranted by the levels of costs
13 being incurred by the Postal Service.

14 A The current set of rates?

15 Q Yes.

16 A No, I really haven't looked at that.

17 Q Is the present piece rate for Standard A mail
18 lower than warranted?

19 A Is the present piece rate for standard -- you mean
20 for ECR?

21 Q Yes.

22 A Lower than warranted?

23 Q Yes.

24 A I don't think so.

25 Q Could you please look at page 8 of your testimony.

1 Let me read you a sentence beginning on line 13:
2 "Val-Pak/Carol Wright, whose mailings are predominantly
3 letters under the 3.3 ounce breakpoint, benefit through a
4 lower than warranted letter rate."

5 What did you mean there if you didn't mean that
6 the piece rate is lower than warranted?

7 A Could you give me the line again?

8 Q Lines 14 and 15 of page 8. Actually, the sentence
9 begins on line 13.

10 A This is talking about the proposed -- the
11 proposal. At least the intent is to talk about the
12 proposal.

13 Q So you're saying you disagree with the proposal.
14 The piece rate is not appropriate?

15 A No, I'm not disagreeing with the proposal. I'm
16 just pointing out that in an ideal situation, the letter
17 rate may change.

18 Q This section beginning on page 7, letter C, is in
19 the present tense. The ECR pound rate is too high. On page
20 8, ECR saturation flats get the worst of all worlds in every
21 respect. They pay -- none of this talks about the proposed
22 rates, yet you're telling me that this last sentence of the
23 section is only talking about the proposed rates and not the
24 present rates?

25 A If you're asking me about appropriateness of the

1 current rate structure in terms of the size of the -- the
2 level of the pound rate, then I am -- I do disagree for the
3 current rate structure that the pound rate is too high.

4 Q We're talking about the piece rate, though.

5 A If the pound rate is too high, then obviously the
6 piece rate is too low.

7 Q Well, that's not obvious if the total is too low.

8 A Well, I'm talking in terms of costing, and if you
9 are -- if your pound rate is too high, then it's coming from
10 -- it's supporting something else.

11 Q I'm just trying to find out what ADVO's position
12 is in this case. Mr. Giuliano testified that in his view,
13 he disagreed, he said that the -- when I asked him whether,
14 in his mind, the piece rate is unwarranted, he said no. He
15 works for ADVO, but he testified for SMC. You don't work
16 for ADVO, but you're testifying for ADVO, and you are saying
17 that the piece rate is unwarranted.

18 MR. McLAUGHLIN: Mr. Chairman, I think if parties
19 go back and read the question and read the answer to Mr.
20 Giuliano about whether -- the context of the question, it
21 was not at all clear when Mr. Straus was talking to Mr.
22 Giuliano that he was talking about the piece rate versus the
23 pound rate as opposed to the overall piece rate and the
24 level of ECR rates, and I think that we get into a little
25 bit of confusion here if we start trying to characterize now

1 in a question to this witness what Mr. Giuliano said in
2 response to an earlier question.

3 MR. STRAUS: That's fair because I don't have the
4 transcript, either. But let's just stick with this witness'
5 testimony, that sentence beginning on line 13.

6 BY MR. STRAUS:

7 Q I suggested to you that maybe you were speaking in
8 the present tense rather than on the proposed rates based
9 upon the context, and I'll ask the question again.

10 A Line 13 of what page again?

11 Q Page 8.

12 A Page 8.

13 Q Is that statement limited to the proposed rates or
14 does it also apply to the present rates?

15 A All right. Let's go back here, because when you
16 are asking me about current sets of rates, I haven't looked
17 at current rates in comparison to current costs, and that's
18 how I would look at it. What I have compared is proposed
19 rates and current sets of costs in terms of test year costs.

20 Now, in general, the rate structure is such that I
21 -- I do believe it needs to be improved, and I say that in
22 several places. The improvement that I believe needs to be
23 done is that the pound rate needs to be lowered and the
24 piece rate needs to come up a bit, particularly the piece
25 rate for pound-rated mail.

1 Now, again, when you were asking me about making
2 judgments about current rates, I thought you were talking
3 about in comparison to current costs.

4 Q Just to be clear, though, the statement on page 8
5 does not relate to the piece rate for pound-rated mail, does
6 it? It's just the piece rate for piece-rated mail?

7 A I think piece rate is piece rate. Whether it's
8 for piece rated or pound rated, they're linked.

9 Q Well, you made a point, though, in that sentence
10 to talk about letters under the 3.3 ounce breakpoint.

11 A Right.

12 Q So you were focusing in that sentence on the piece
13 rate for piece-rated mail.

14 A Yes.

15 Q I don't know that you answered my question.

16 A Okay. Give it to me again.

17 Q Does that statement apply to the present rates or
18 to the proposed rates or to both?

19 A And again the statement is on page 8?

20 Q Lines 13 through 15.

21 A 13 through 15.

22 Q Letters under the 3.3 ounce breakpoint benefit
23 through a lower than warranted letter rate. It's written in
24 the present tense but, you know, you could have meant
25 something else.

1 A I think in general, if -- again, I'm not comparing
2 current rates to current costs. In terms of -- you have to
3 match your costs to your rates, and that's the problem I'm
4 having for you.

5 If you want to say in terms of when we developed
6 the costs for the R97 rates based on the costs that were
7 associated with those rates, yes, I think those piece rates
8 were probably too low and the pound rate was too high.
9 And again, I'm doing the same thing again, looking at
10 proposed rates versus the costs that go with those rates,
11 and again the testimony is the pound rate is too high and
12 therefore the piece rates are too low. In ideal worlds, you
13 would want to make an improvement.

14 Q Okay. On page 20 of your testimony, in the
15 caption, you use the phrase competitive process, the term
16 competitive process. What do you mean by competitive
17 process?

18 A I mean by competitive process the process whereby
19 prices are reduced to marginal cost, appropriate marginal
20 cost, and consumers that are willing to pay a price that's
21 based on marginal cost get -- are able to purchase that good
22 or service.

23 Q You're speaking there of -- that the Postal
24 Service's proposal will move rates closer to what you
25 believe marginal cost to be. You're not testifying that

1 they will have any effect one way or another on enterprises
2 in the private sector that compete with the Postal Service.

3 A No. I think I have words in here to the effect
4 that when the prices for postal products are -- at least
5 this is my interpretation -- when prices for postal services
6 are reduced and there is competition for those services,
7 then competitors also have to scramble to do the same or
8 become more innovative in the services that they provide.
9 It's a dynamic process.

10 Q On page 21, you discuss Distribution Systems of
11 Oklahoma, Mr. White's company.

12 A Yes, sir.

13 Q You say at line 14 that DSO, unlike the USPS, has
14 the flexibility to revise its rates to accommodate various
15 advertiser conditions such as volume.

16 Does ADVO have the flexibility to revise its rates
17 to accommodate various advertiser conditions?

18 A I don't know a lot about ADVO's pricing.

19 Q Well, aren't these preprint advertisements -- I
20 mean, you've heard a lot of discussion today about who
21 competes with whom and who doesn't compete with whom. If
22 there is a retailer out there that wants to get its circular
23 distributed, DSO can put it in their alternate delivery
24 package or ADVO can put it in their shared mail package. In
25 that respect, ADVO and DSO are standing in the same shoes,

1 so to speak, aren't they?

2 A If ADVO were in that market. I understand ADVO is
3 not in that market. But if it were in the market, they
4 would probably be in the same shoes with the exception that
5 ADVO at that point in time would be depending on the Postal
6 Service to provide its distribution and DSO would have its
7 own system to provide that distribution.

8 Q Absolutely. But you're comparing DSO to the
9 Postal Service. The Postal Service isn't bidding directly
10 for that one insert, is it? No one is going to mail that
11 solo mail, are they?

12 A I think we're getting -- I'm not quite sure what
13 insert we're talking about here, but I --

14 Q I was the advertiser and I have a single sheet --

15 A Right.

16 Q -- with a pizza coupon on it I want to delivered
17 to everyone in Oklahoma City or in Philadelphia or in
18 Cincinnati --

19 A Right. And you really can't afford solo mail?

20 Q Right.

21 A Okay. So you need a shared product of some sort.

22 Q And my concern here is you're comparing DSO's
23 flexibility with that of the Postal Service, which I submit
24 to you is totally irrelevant. What's relevant is DSO's
25 flexibility versus ADVO's.

1 So I asked you whether ADVO, like DSO, and perhaps
2 unlike the Postal Service, has the flexibility to revise its
3 rates to accommodate various advertiser conditions. You got
4 as far as saying I don't know much about ADVO.

5 A Okay. Let me explain. In the longer run, ADVO
6 does have some flexibility in that case. In the short run,
7 if ADVO is dependent upon the Postal Service to provide
8 distribution, then that distribution cost is fixed to ADVO.

9 Q Is ADVO unique in the world to have a fixed cost?

10 A No. There's many kinds of products that have
11 fixed cost to them.

12 Q Does private delivery --

13 A But this is not necessarily an appropriate fixed
14 cost.

15 Q Does an alternate delivery company has fixed
16 costs?

17 A I suspect they have some fixed costs.

18 Q Does a newspaper have fixed costs?

19 A I suspect a lot of services and products have
20 fixed costs.

21 Q Does ADVO price -- does ADVO offer the same price
22 to every advertiser?

23 A I don't believe so.

24 Q So they have some flexibility?

25 A Depends on the advertiser.

1 Q Well, let's say every advertiser with a half-ounce
2 to go to 10,000 people in Philadelphia. Does every
3 advertiser pay the same price whether it advertises once or
4 once a week or once a month or in Philadelphia plus Boston
5 plus New York?

6 A You know, I think it really would have been better
7 if you had asked Mr. Giuliano because I'm not really into
8 ADVO's pricing.

9 Q Well, you know, when we've asked about ADVO's
10 pricing, we were told it was confidential, and you're the
11 one who's comparing DSO's flexibility with the Postal
12 Service. So if you don't know, you don't know and we can
13 move on.

14 A What I'm comparing here is distribution costs, and
15 the distribution costs for ADVO with the -- using the Postal
16 Service as the distributor are completely fixed.

17 Q I beg to differ. You're discussing rates charged
18 to consumers, you're not --

19 A No, I am talking about -- here, this particular
20 section, I am talking about the distribution cost for a
21 shared mail package that goes through the Postal Service.
22 That distribution cost is fixed, it cannot vary.

23

24

25

1 EVENING SESSION

2 [6:00 p.m.]

3 BY MR. STRAUS:

4 Q That may be or may not be true but the sentence we
5 are talking about and indeed the whole section doesn't
6 mention distribution costs. It measures pricing
7 flexibility.

8 Now if you don't know whether Advo charges
9 different prices to the same -- to a half ounce piece
10 irrespective of the nature of the mailer, you can say so and
11 we can move on, and that would be fine.

12 A What I want to say is that I am not talking about
13 Advo's prices here.

14 Q I am.

15 A I understand that, but you are ascribing it to my
16 testimony and so I need to say something about it.

17 Q You are talking about DSO's pricing flexibility.

18 A Yes, because DSO is providing a distribution
19 service and it does provide flexible prices for its
20 distribution service.

21 Q You are testifying --

22 A The distribution service that Advo obtains from
23 the Postal Service is not a flexible price and that is the
24 comparison that I am making.

25 Q Is the distribution service that DSO obtains from

1 its independent contractors who do the delivery a flexible
2 or is that a fixed cost?

3 A I have no idea.

4 Q So you don't know whether DSO and Advo are in the
5 same position with respect to whether their distribution
6 costs are fixed or variable?

7 A I believe -- I believe Mr. White answered some
8 interrogatory responses that indicate that there are some
9 flexibilities in DSO's pricing.

10 Q That was pricing not distribution costs.

11 A The Postal Service distribution is -- the price
12 for Postal Service distribution is a distribution cost to
13 Advo.

14 Q And the price of DSO --

15 A And the price for DSO is a distribution cost for
16 whatever mailer or advertiser wants to use DSO, whether it
17 be a shared mail package or a solo piece.

18 Q Does Advo have pricing flexibility like DSO?

19 A I assume it has some pricing flexibility, but not
20 with respect to its distribution.

21 Q It doesn't price distribution, it prices a product
22 to a consumer. It says we will charge you \$40 a thousand or
23 we will charge you \$30 a thousand or we will charge you \$100
24 a thousand. That is the price.

25 The consumer doesn't see a distribution price,

1 does it, a separate price for distribution?

2 A I think I have answered the question. I am
3 talking here about the price for distribution that a shared
4 mailer or any other advertiser faces to have a distribution
5 service.

6 When it goes to the Postal Service the cost to
7 that shared mailer is a fixed cost. When it goes to a
8 private delivery company like DSO there is some flexibility
9 in that price.

10 The cost to the mailer or the advertiser can be
11 negotiated with the private delivery company and that is all
12 that I was trying to say --

13 Q And can the advertiser also negotiate with Advo?

14 A What Advo is providing is a service beyond
15 distribution. It is also providing services such as
16 developing the ad, identifying the market to target and
17 other sorts of things, and there is flexibility there.

18 Q Is there flexibility when it is not doing any of
19 those things?

20 A I don't know how often that happens, and again if
21 you have any questions about that, it really should have
22 gone to Mr. Guliano.

23 Q Well, you are testifying for Advo. He did not,
24 so --

25 A I am testifying on this particular issue for Advo,

1 not on Advo's pricing.

2 Q Well, who else testified for Advo in this case?

3 A Well, I have indicated what I am testifying on.

4 Q Let me try one more time because in that last long
5 explanation you flipped from costs when you dealt with Advo
6 to prices when you dealt with DSO.

7 A Okay.

8 Q So let's talk about costs.

9 A Okay.

10 Q Advo has incurred costs in distributing product.

11 A Yes, sir.

12 Q Those costs are the prices charged by the Postal
13 Service.

14 A Yes.

15 Q Those are not all of Advo's costs. Advo has all
16 sorts of other costs as well, does it not?

17 A Yes. I understand -- yes, that's true.

18 Q And so some of its costs are fixed by the Postal
19 Service rates and of its other costs I imagine some are
20 fixed like the rent it pays and some are variable based upon
21 the number of pieces it prints or handles or distributes,
22 right?

23 A I don't know Advo's cost structure, other than I
24 know that postal is a very large portion of its cost.
25 Beyond that I really can't tell you.

1 Q You don't think -- you can't even tell me that
2 some of its nonpostal costs are fixed and some are variable?

3 A I think I have already told you that I suspect in
4 a lot of products and services there's fixed cost.

5 Q And now let's look at DSO. It incurs a cost to
6 distribute as well, plus it has other costs and then it
7 charges a price to its customers.

8 Now you said you don't know to what extent the
9 cost incurred by DSO for distribution, the functional
10 equivalent of the Postal Service price, is fixed or not, is
11 that right?

12 A Repeat that last again?

13 Q You said you didn't know whether the cost incurred
14 by DSO for distribution is fixed or is not fixed.

15 A I don't believe that any service would have
16 completely fixed costs.

17 Q I am talking about just the distribution. Let's
18 say, let's assume, let's say for example a private delivery
19 company said we will pay you \$30 per thousand houses every
20 week. You run your route, you deliver what we give you, we
21 will pay you \$30 per thousand to deliver to these houses.

22 That would be a pretty fixed cost, wouldn't it?

23 A Yeah.

24 Q And if the Postal Service says to Advo we are
25 going to charge you \$30 a thousand to deliver these pieces

1 for you that is also a fixed cost?

2 A Yeah.

3 Q Please look at page 22 of your testimony. Do you
4 see that?

5 A What --

6 Q Are you there?

7 A I am here. Yes.

8 Q You have a chart at the top of the page, Table
9 III-6.

10 A Yes.

11 Q And that is confined to pieces weighing between
12 two ounces and six ounces, is it not?

13 A Yes.

14 Q And then below that you have text and you say that
15 94 percent of the Postal Service saturation flat volume
16 falls within the zero to six ounce weight increment, so 94
17 percent would be zero to six ounces. You are here showing 2
18 to 6.

19 Are you with me so far?

20 A Yes, sir.

21 Q Okay, but the next sentence is the one that throws
22 me. "Thus, this rate comparison" -- which rate comparison
23 are you referring to there?

24 A The comparison in the table.

25 Q Okay, so "Therefore the table covers the vast

1 majority of USPS saturation flat volume" -- how do you
2 conclude that from the table?

3 A My understanding is that the DSO rates are flat up
4 to I believe it is 5 ounces, so I am assuming that those
5 rates are applicable all the way down to zero, from zero to
6 5 ounces.

7 I just didn't go down to zero to one, one to two
8 ounces.

9 Q I guess I didn't make the question clear.

10 We can agree for purposes of the question that in
11 the zero to six ounce range you will find 94 percent of the
12 saturation flats.

13 A Okay.

14 Q Excuse me -- right. Now for what saturation flat
15 weight range is a rate reduction proposed?

16 A A weight reduction for pound --

17 Q A rate reduction.

18 A The pound rate is proposed and the pound rate
19 applies for pieces over 3.3 ounces.

20 Q The sentence says, "Thus, the rate comparison
21 covers the vast majority of USPS saturation flat volume that
22 could be affected by the USPS reduction in the pound rate."
23 Now, the four ounce piece would not see a reduced pound
24 rate, would it?

25 A It would still be affected the pound rate.

1 Q Would it be affected by a reduction?

2 A I am not sure I understand what your question is.
3 Any piece can be affected by the proposed pound rate.

4 Q All right. Let me try it another way. The pieces
5 between 3.3 ounces and 16 ounces are affected by a reduction
6 in the pound rate, is that right?

7 A No, actually, I think pieces below would be
8 affected as well. I think you have heard testimony from
9 some mailers that -- one of their problems is they have got
10 low weight pieces because of the high pound rate. They
11 could very easily go from being piece rated to pound rated.
12 And that is maybe one of the benefits of reducing the pound
13 rate.

14 Q So you are saying that even though this table is
15 only applying to pieces under 6 ounces, and even though only
16 pieces 5 ounces and above would see a reduction, that this
17 table covers the vast majority of the flat volume that would
18 be affected by the pound rate?

19 A Yeah.

20 Q Only because it is the vast majority of the flat
21 volume, period?

22 A Yeah. And it is entirely possible, if you reduce
23 the pound rate, that any piece might gain weight, regardless
24 of whether it is above or below the pound rate --
25 breakpoint.

1 Q What was the point of this sentence then? What
2 point were you trying to make here?

3 A Just that that covers a great deal of the volume
4 that is in question.

5 Q What covers?

6 A The comparison.

7 Q This sentence would be equally true if you ended
8 it with the word "volume" on line 5, wouldn't it?

9 A Except that, yes, it is -- that would be equally
10 true.

11 Q So you are not making any additional point when
12 you say that could be affected by the USPS reduction in the
13 pound rate?

14 A Yes, actually, I am.

15 Q Well, see, what I thought you were trying to say
16 here is that, you know, DSO has no need to worry because,
17 for those pieces where the Postal Service rate is going to
18 be reduced, you are already cheaper. And what you have
19 shown is a rate comparison below 6 ounces, but most of the
20 reduction occurs in the higher weights. And so I thought
21 that you were -- that is the point you were making.

22 Okay. Now, what point were you making with these
23 ads that could be -- excuse me, these words, that could be
24 affected by the USPS reduction in the pound rate?

25 A Well, actually, there were actually a couple, but

1 the major one was the thought -- the whole purpose of this
2 testimony is to explain why the moderate reduction in the
3 pound rate that is being proposed is a very reasonable thing
4 to do. And one reason why it is reasonable is that for the
5 vast majority of Postal volume that might be affected, might
6 have a bit of increase in its weight, that volume will still
7 be still priced much higher than DSO's prices, even with the
8 reduction in the pound rate.

9 And that is all I was trying to do was to indicate
10 that is still a very moderate thing that is proposed.

11 Q For a 2 ounce piece, the Postal Service is
12 proposing a rate increase, isn't it?

13 A Yes.

14 Q And for a 3 ounce piece, a rate increase?

15 A Yes.

16 Q And a 4 ounce piece, a rate increase?

17 A Probably.

18 Q And a 5 ounce piece, what about that?

19 A I don't know where the crossover point is. But
20 that is not what the market looks at. And my understanding
21 is that a very large number of saturation mailers take the
22 pound rate as their marginal distribution cost and make
23 decisions in terms of how -- the weight of their packages.
24 And so even if they are below the breakpoint now, they still
25 could be affected by the pound rate. They are affected,

1 currently are affected by the pound rate, and will be
2 affected by a lower pound rate under this proposal.

3 Q How will a 2 ounce piece be affected by a lower
4 pound rate under this proposal?

5 A If you have some saturation mailer out there who
6 is struggling to stay in the market, if he has got a
7 marginal pound distribution cost in the version of a lower
8 pound rate, that saturation mailer may be able to add
9 additional volume to his package and remain in the system.

10 What I mean is he might be able to add additional
11 inserts into his package and remain viable.

12 Q Is he mailing at the piece --

13 A He may now be mailing at the piece rate and may,
14 as a result of this, be able to at least increase his rate
15 -- increase his weight and remain viable in the system, or
16 maybe even go over the breakpoint.

17 Now, at a 2 ounce, I don't know whether he would
18 go over the breakpoint or not, but at 3 ounces, he could.
19 And it could happen, you know, some weeks, and maybe not
20 other weeks. And my understanding is that that would
21 certainly help them to remain in the system.

22 Q At the end of that paragraph, you say that the
23 disparity between the USPS and DSO rates become greater as
24 pieces become heavier. You don't get that from your table
25 here, do you?

1 A I get it from going from 5 ounces to 6 ounces.

2 Q When pieces become heavier, you didn't mean above
3 6 ounces, you just mean as we move from 2 ounces to 6
4 ounces?

5 A Well, I guess I am assuming that you don't have a
6 marginal ounce rate that is over 3 cents an ounce.

7 Q Let me ask that question again. When you say, as
8 pieces become heavier, the disparity between USPS and DSO
9 becomes greater, you are not speaking about within this
10 table, but you are saying once you get beyond the 6 ounce
11 range?

12 A Within the table.

13 Q So you are saying under 6 ounces?

14 A Yeah, well, look. Take a look. Take a look at
15 it. You go from 3 to 4 ounces, and then you go from 4 to 5
16 ounces, and then you go from 5 to 6 ounces. Right there you
17 can see it.

18 Q We are not communicating well. Maybe we are both
19 tired. When you say as pieces become heavier, are you
20 saying as they become heavier within the parameters of this
21 table, or are you saying as they --

22 A Within this table.

23 Q You are not saying anything weights at 7 -- prices
24 at 7 or 8 or 10 ounces?

25 A I don't have your prices, I didn't get those.

1 Q Okay.

2 A Unfortunately.

3 Q I was just trying to find out whether you were
4 speaking about within the table or outside the table.

5 A Yeah, but within the table you can see it.

6 Q Now, again, the advertiser with that 1 or 2 ounce
7 piece, who wants to put it out on a saturation basis, he
8 looks at DSO's rates on the one hand, which will deliver
9 that piece for him. And then is he going to go and look up
10 what the Postal rate is for that piece, or is he going to
11 ask what Advo's price would be for delivering that piece?

12 A Advo or whoever else is in the market.

13 Q But he wouldn't be looking at the Postal Service
14 price, he wouldn't go look at the rates and classifications
15 -- I mean at the table of rates for the Postal Service?

16 A No, he wouldn't, but whatever price he would try
17 to get from whatever shared mailer he was talking to,
18 whether it be a Pennysaver or whatever, implicit in the
19 price he got from that shared mail would be the Postal
20 Service's distribution cost.

21 Q Unless, of course, you had -- well, what if you
22 are talking about that marginal shared mailer with 1 ounce
23 of stuff and a 2 ounce piece shows up and wants to join his
24 shared mail set, there the incremental postage would be
25 zero, wouldn't it?

1 A I am sure that they try to take advantage of that
2 when they can.

3 Q The comparison that the advertiser, the customer,
4 the person who owns the ad would look at would be DSO's
5 versus Advo's versus some other distributing entity; is that
6 right?

7 A Repeat that again.

8 Q The advertiser, the guy that owns the store, he
9 would be looking at DSO's price or some other alternate
10 delivery company; he'd look at Advo's price; he'd look at
11 maybe a newspaper price, maybe a Penny Saver price.

12 A Yes.

13 Q He wouldn't look at the Postal Service price?

14 A No, because he probably couldn't afford solo. I'm
15 sure that if he's considering saturation shared, then I
16 suspect he's not able to afford solo.

17 Q And you said you don't have DSO's prices; is that
18 right, for the higher weights?

19 A This is all I have.

20 Q And do you have any Advo prices, lower weights,
21 higher weights, any weights?

22 A I don't have any Advo prices, no.

23 MR. STRAUS: That's all the questions I have.

24 CHAIRMAN GLEIMAN: Next is the Newspaper

25 Association of America. Mr. Baker, before you begin, does

1 anyone have a car in the garage downstairs that's got keys
2 in the car as opposed to in your pocket?

3 You do, well, it's 7:00, and the garage attendants
4 usually collect those keys and lock them up. So, if there
5 is anyone out there who wants to take a break right now to
6 get their keys, they may wish to do so.

7 [Discussion off the record.]

8 MR. McLAUGHLIN: Our witness has a problem in that
9 regard.

10 CHAIRMAN GLEIMAN: In that case, we're going to
11 take a short break.

12 [Recess.]

13 CHAIRMAN GLEIMAN: Mr. Baker?

14 MR. BAKER: Thank you, Mr. Chairman.

15 CROSS EXAMINATION

16 BY MR. BAKER:

17 Q Good evening, Ms. Crowder.

18 A Hello.

19 Q Turn to page 12, Table 3-1. And I understand that
20 you present this calculation as sort of an out-of-bound
21 example, but I just wanted to make sure I understood what
22 the table is.

23 The numbers you present in Table 3-1 are
24 DDU-adjusted?

25 A Yes.

1 Q Okay, so this is per-pound cost estimates for ECR
2 DDU flat DDU, okay.

3 And you got on line 4 of your testimony on that
4 page, you got from the 33.4 to 50.7 by adding in the 17.3
5 cents you refer to in Footnote 9 on the page before?

6 A Yes, sir.

7 Q Okay.

8 And this is -- you were here when we cross
9 examined Mr. Prescott. This is a cost figure, not a rate
10 figure, correct?

11 A Yes, sir.

12 Q Table 3 is cost.

13 MR. BAKER: I think, Mr. Chairman, that I'm just
14 going to stop right there.

15 CHAIRMAN GLEIMAN: There's still a chance to
16 redeem yourself, Mr. Olson.

17 [Laughter.]

18 MR. OLSON: I'll have to take advantage of it
19 another time.

20 [Laughter.]

21 CROSS EXAMINATION

22 BY MR. OLSON:

23 Q Ms. Crowder, I'm William Olson representing
24 ValPak, and I want to move along as quick as I can to ask
25 you to take a look at page 13 and your Figures 3-1 and 3-2.

1 A Yes, sir.

2 Q And as I understand your text that accompanies
3 that, the first regression is for basic flats and has a
4 weight/cost relationship of 22.2 cents plus 5.3 cents or
5 27.5 cents; is that correct?

6 A That's roughly right. I didn't calculate it, but
7 that sounds about right.

8 Q And then Figure 3-2 is for high density/saturation
9 flats, and there the rate is -- excuse me, I'm going to do
10 this again.

11 The cost is 16.5 cents plus 2.4 cents, rounding
12 up, or 18.9 cents, correct?

13 A Yes, that sounds about right.

14 Q Okay. And the difference between the two, if you
15 could accept, subject to check, is 45.5 percent?

16 Does that sound about right?

17 A I'd have to do the calculation, if you want me to,
18 or I'll just accept it.

19 Q That's all I'm asking.

20 A For now.

21 Q Would it be reasonable to infer then from the two
22 regressions in Figures 3-1 and 3-2 that the basic flats have
23 a weight/cost relationship that differs from the weight/cost
24 relationship of high-density/saturation flats?

25 A It depends. I guess I'd like to know what you

1 mean by weight/cost relationship. If -- in my terminology,
2 I guess, yes, there is the difference, and that's because
3 they are different products, actually.

4 Q Okay, and as a matter of fact, your testimony,
5 when you get to page 28, talks about -- I think -- let me
6 find it.

7 [Pause.]

8 Beginning at line 9 -- and I'll put some ellipses
9 in the sentence, just for clarity -- it says that there is
10 clear and undeniable that, going to paren two, the effect of
11 weight on cost declined substantially with worksharing.

12 That is explanatory of the effect you found in 3-1
13 and 3-2, correct?

14 A Yes, it's the density, the volume density. What I
15 mean by density here is density of pieces going to a
16 particular location.

17 Q The weight/cost relationship is affected by the
18 level of presort?

19 A Density, volume density, yes.

20 Q Okay.

21 Could you go to page 23 or your testimony and at
22 the bottom, line 21, you talk about Witness Daniel's study,
23 and you say it's not a perfect study; it's a good study.

24 And then on the next page you say that together --
25 this is starting on line 1 -- together with the analyses

1 provided in Section 3 above, it provides a strong and
2 reliable indication of the direction in which the ECR
3 non-letter piece- and weight-based rates should go,
4 downward, correct?

5 A Yes, sir.

6 Q Okay.

7 What you say there is that the non-letter piece
8 rate should go down, and the non-letter weight rate should
9 go down, correct; is that what you mean?

10 A I believe you've just found a typo. I think what
11 I meant there was piece/weight-based rates. I'd have to
12 look at it a little more, but I believe you just found a
13 typo in here that I didn't catch.

14 Q What is the typo?

15 A Because what I intended here is that it's the
16 piece/weight-based rates.

17 Q Okay, how would the sentence read then with the
18 correction that you have in mind?

19 A As a result, together with the analyses provided
20 in Section 3 above, it provides a strong and reliable
21 indication of the direction in which the ECR non-letter
22 piece/weight-based rates should go, downward.

23 Q So you'd take out the word, and, between piece and
24 weight?

25 A I believe that's what the intent was with this

1 one, because we are talking here in this section about the
2 weight/cost study.

3 Q Well, you say the non-letter piece/weight-based
4 rates, and I don't know what that means. I know we have for
5 non-letters, we have a piece rate and a pound rate.

6 Are you saying the piece rate should go down and
7 the pound rate should go down?

8 A No, no, I'm sorry. It's the rate that's based on
9 piece/weight. That's what I mean.

10 Q Or, in other words, the rate that's based on
11 weight?

12 A Yes.

13 Q Okay, when you say pieced weight, I think it may
14 --

15 A I understand, and I think this was just a typo.

16 Q Okay, so you don't mean this the way it was?

17 A What I meant was, what I am addressing here is the
18 pound rate.

19 Q Okay. And clearly, if you had a fixed revenue
20 requirement, and you were of the opinion that the pound rate
21 was too low and should come down, the piece rate is going to
22 have to go up, right?

23 A Yes, sir, I understand that, yes.

24 Q Okay.

25 A Thank you for finding this, by the way.

1 Q Sure. We'll see if you thank me for the next one.

2 A Okay.

3 Q Without the analyses that you provide in your
4 testimony, and particularly in Section 3 of your testimony,
5 do you believe that Witness Daniel's study provides, as you
6 say, a strong and reliable indication of the direction in
7 which the ECR non-letter pound rate should go?

8 A Would you repeat that?

9 Q Sure. I'm asking you to think back to the record
10 the way it stood moments before your counsel's motion was
11 granted and your testimony became part of the record and we
12 were just dealing with Witness Daniel's testimony.

13 Do you think Witness Daniel's Library Reference
14 and her testimony provided, in your words, a strong and
15 reliable indication of the direction in which the ECR
16 non-letter pound rates should go?

17 A As -- are you asking me as an analyst?

18 Q Sure.

19 A As an analyst, I would have looked at her data and
20 done the things that I did.

21 Q Well, if you were the Commission and you were
22 evaluating the state of the record without your supplemental
23 analyses, do you believe it provided a strong and reliable
24 indication of the direction for the pound rate for ECR?

25 A Yes, I think I would.

1 Q Okay.

2 And in your opinion, does Witness Daniel's
3 testimony and Library Reference also provide for Standard A
4 regular, not ECR but Standard A regular, an equally strong
5 and reliable indication of that the pound rate should be
6 reduced?

7 A You know, I can't answer that. I really haven't
8 looked at that one. I have focused on the ECR subclass.

9 Q Do you know what the Postal Service proposal is
10 for regular, for the pound rate?

11 A I can't recall it right now. I'm sorry.

12 Q But you just haven't studied the costs or the
13 rates of regular, just ECR, correct?

14 A That's correct.

15 Q Okay.

16 When we talked a moment ago about the difference
17 in regression lines and weight/cost relationship of basic
18 versus high-density saturation, is it not true that the
19 difference in the weight/cost relationship that you show in
20 your testimony could be acknowledged by a higher
21 pass-through of destination entry discounts; that's one way
22 to give recognition to those different weight/cost
23 relationships?

24 A That's interesting. Obviously it is one way, and
25 I understand that you all have proposed that.

1 I think the better way is to reduce the overall
2 pound rate, moderate it, and then also come in with very
3 reasonable drop ship discounts that are based on cost.

4 Q Let me ask you to look at page 25, lines 18 and
5 19.

6 There's part of your criticism of Dr. Haldi's
7 analysis you say, "He glosses over the fact that bulk
8 handling costs are characterized by large scale economies."
9 And then as -- that is the end of the quote -- but as I
10 understand you have got three bulleted paragraphs that
11 follow onto the next -- and continue onto to the next page
12 which seem to expand on that conclusion, is that correct?

13 A I am trying to explain them a little bit.

14 Q Okay. Let's take the first one for a second on
15 page 25, and there you talk about the large scale economies
16 are demonstrated when there are fixed setup costs when
17 handling bulk containers, correct?

18 A Yes.

19 Q Okay. Let me ask you, if a truck arrives at a
20 Postal facility and it is loaded with pallets, what are the
21 setup costs involved in unloading those pallets?

22 A In unloading them?

23 Q Yes.

24 A I would have to think about that. I am not sure.

25 Q Let me ask you a different question. If a clerk

1 or a mail handler is loading or, in fact, unloading tubs of
2 mail, what are the setup costs involved in loading and
3 unloading tubs of mail?

4 A I am not sure exactly what you mean by setup, but
5 what I meant was the fixed costs would be the clerk or mail
6 handler. And we can go back to the pallet situation.

7 Q Okay. Go ahead and explain that one.

8 A You take, regardless of the weight of the pallet,
9 you are going to get either the pallet jack or the forklift
10 over there, lift the pallet, go in the truck, lift the
11 pallet up, and move it to wherever you need to move it. And
12 that is a fixed cost regardless of the weight of the pallet.

13 And the same thing with --

14 Q Can I just explore that before you move on?

15 A Yes, sir.

16 Q You are saying getting the forklift and getting it
17 on the truck, is that the setup cost or is it also removing
18 the pallets, is that part of --

19 A That is a fixed cost, a setup cost for a pallet
20 would be, for example, Dr. Haldi's example of, if the pallet
21 has to be opened, then you have to rip the material, the
22 shrinkwrap off, cut the bands, whatever, and that is pretty
23 much fixed regardless of the amount of weight on the pallet.
24 And that is what I would consider a fixed cost -- a setup
25 cost.

1 Q If there are more pallets in one mailing versus
2 another mailing, would the setup cost be fixed? In other
3 words, if there are --

4 A It would be fixed per bulk container.

5 Q Per pallet then?

6 A Yes, sir.

7 Q Or per tub?

8 A Yes, sir.

9 Q Or per OTR?

10 A There could also be fixed costs.

11 Q Did you nod your head yes?

12 A I'm sorry. Yes. There are fixed costs in various
13 parts of the processing. The fixed costs that I am talking
14 about here are the ones that are fixed per bulk container,
15 but there are others as well.

16 Q Okay. So you are saying there is a fixed cost for
17 a pallet irrespective of weight and then there is another
18 fixed cost for the next pallet?

19 A Yes, sir.

20 Q And a fixed cost for an OTR and such?

21 A Yes, sir.

22 Q Okay. And that is what you are calling a setup
23 cost, the cost of handling --

24 A No, the setup cost would be the example that I
25 gave you for the pallets, or for the sack, he would have to

1 open the sack and dump it. That is -- opening the sack is
2 sort of what I would consider a setup cost.

3 Q Well, let's go back to the pallet, what did you
4 say? You said fixed or semi-fixed setup costs, and with
5 respect to a pallet coming off a truck, the setup costs are
6 what?

7 A I think setup is -- to me, when I was talking
8 about setup cost it would be to set up the container to do
9 something with it. And an example of the setup cost would
10 be, for example, opening the pallet, and that is what I had
11 considered a setup.

12 In addition to setup costs which would be fixed,
13 there are other fixed costs. So setup may be a term that is
14 a little bit confusing. Setup costs are fixed, but there
15 are other fixed costs. For example, the forklift going into
16 the truck and picking up the pallet and taking it over to
17 where it is going to be staged, and then opened up in sort
18 of a setup arrangement. And that is -- setup was just my
19 own term for that.

20 Q So when you say fixed or semi-fixed, I mean if
21 they are incurring the same costs for each pallet on the
22 truck, and one truck has one and one has six, it is not
23 really fixed the way I would think about it, isn't it
24 varying by the number of pallets?

25 A Yes, it varies by the number of pallets, but it is

1 fixed with respect to the number of pieces or weight in the
2 pallet.

3 Q Okay. Let's take the second bullet on the next
4 page quickly, because you talk about bulk containers, and
5 you talk about them having maximum weight constraints, but
6 you say most of the bulk Standard A mailings are handled in
7 containers that do not reach those weight constraints,
8 correct?

9 A Yes, sir.

10 Q Okay. Let's examine that with a hypothetical, and
11 this is a very simple hypothetical, nothing complex, we are
12 just talking about two different mailings of flats. The
13 first -- each one of them has, to make the numbers work,
14 each one has to have 320,000 flats. In the first mailing,
15 this is very simple, they each weigh 2 ounces, in the second
16 mailing they weight 4 ounces. So when you run the math, the
17 first mailing is 40,000 pounds, and the second one is 80,000
18 pounds. And let's just, for simplicity, assume that we have
19 a truck that takes 40,000 pounds, so we have one truck
20 versus two trucks in the two mailings. That is the
21 hypothetical. And the mail is coming in on shrinkwrapped
22 pallets, just like you described.

23 Now, if the number of pallets in the first
24 mailing, which is the one with the 2 ounce pieces, if we
25 call that, the number of pallets X, are you saying that the

1 second mailing, the 40,000 pound mailing, the 4 ounce piece
2 mailing that fills two trucks, that the cost of mail
3 preparation is significantly less than 2X, if you know?

4 A The cost of mail --

5 Q Where the number of pallets is less than 2X, first
6 of all, if the first is X.

7 A No, what I am saying is that that is too simple.
8 I have been through these examples before. I think that is
9 a very simple, too simple an example.

10 Q Okay. But let me stick with this.

11 A Because that is not how it works in the Postal
12 system.

13 Q Okay. It is a hypothetical, and just to clarify
14 what you are saying, with respect to those two mailings, you
15 have no evidence that the second mailing has less than twice
16 the number of pallets that would be on the first truck, do
17 you?

18 A In the hypothetical, no.

19 Q Okay. And in the hypothetical, would you contend
20 that the time required to unload the second mailing would be
21 substantially less than twice the time to unload the first
22 truck?

23 A Well, let me ask you this, you have these two
24 mailings, are they both going to exactly the same places and
25 they are both prepared in exactly the same way, and there is

1 no difference between them?

2 Q Setarus parabus.

3 A Under that situation, obviously. All you are
4 doing is just -- and you are saying that you filling the
5 pallets to capacity. I mean that is the very simple
6 example.

7 Q Well, even if --

8 A Yeah, sure.

9 Q So it is not going to take less than twice the
10 time to unload them?

11 A Not under that kind of an example. That is
12 exactly the example that Dr. Haldi produced for you.

13 Q Okay. Let's go to page 28 and we will wrap up
14 with this. This is at the end of the page, starting on line
15 26, you say, "But such diversity is also the reason why it
16 would be exceptionally difficult, if not impossible, to
17 identify systemwide rate category-specific weight-related
18 costs through an industrial engineering modeling or some
19 other non-IOCS type approach, correct?

20 A Yes, sir.

21 Q Okay. Let me just take one type of cost for a
22 second before I get into this.

23 Witness Daniel made a decision or an assumption
24 with respect to elemental load costs. Are you familiar with
25 what she did?

1 A Yes, sir.

2 Q Okay.

3 And would you agree that she assumed that weight
4 was the cost driver for elemental load costs?

5 A Yes.

6 Q Okay.

7 To your knowledge, did Witness Daniel have any
8 kind of data or empirical evidence or study to support her
9 assumption?

10 A No. I understood it to be that she was just doing
11 it to be conservative.

12 Q Okay, now, putting aside elemental load, what
13 other specific activities did Witness Daniel identify where
14 she considered weight to be an important cost driver?

15 A Transportation, vehicle service drivers were on a
16 cubic foot basis.

17 Q Your testimony --

18 A And there was some other small amounts of cost
19 that she distributed on weight.

20 Q Okay, anything else you can think of?

21 A Not right now.

22 Q Okay.

23 Isn't it true that Witness Daniel did not attempt
24 to identify specific activities where weight was considered
25 to be the cost driver?

1 A She -- the IOCS analysis covers mail processing,
2 window service, and Cost Segment 6, which are the biggies,
3 real big for carrier route.

4 And roughly one-third of carrier route costs are
5 mail processing.

6 Q No, I'm not trying to --

7 A Another third are city carrier.

8 Q Okay, that's not my question.

9 A And then the other third is rural, which is
10 per-piece.

11 Q Let me regain control and just say that's not my
12 question. My question is, did Witness Daniel attempt to
13 systematically identify the activities where weight was the
14 cost driver?

15 I know IOCS tallies are drawn from a variety of
16 different functions.

17 A No, the analysis was based on the IOCS, and the
18 attributable costs.

19 Q Okay.

20 And you say in your testimony, though -- and this
21 is on line 26 and we just read it -- you said that any kind
22 of study that would attempt to do that would be extremely
23 difficult -- exceptionally difficult -- I'm sorry.

24 Compared to what would it be exceptionally
25 difficult?

1 A Well, I give you an example. In this rate case,
2 there is still contention as to the effect of volume on
3 costs for mail processing, and that certainly ought to be a
4 much easier thing to identify.

5 Q Well, would you not agree that in this docket and
6 prior dockets, that the Postal Service has identified
7 various detailed models that identify down-flow densities?

8 They have collected all sorts of data; they have
9 captured the specific ways in which mail is handled and they
10 have modeled it for various purposes?

11 A For -- they have done -- I think what you are
12 talking about are these cost avoidance models, and, yes,
13 they have done that.

14 Q So why do you think it would be so, as you put it,
15 exceptionally difficult to do a similar study for
16 weight-related costs?

17 A Again, the example is that volume-related costs
18 are still in contention here. We haven't even settled in
19 terms of cost attribution, volume variability.

20 And then to try to find weight variability as
21 well, I just can't imagine. We haven't even gotten volume
22 variability settled yet.

23 Q You haven't attempted to fashion what such a study
24 would require; have you?

25 A I have given it a great deal of thought.

1 Q And?

2 A Yes, I have given it a great deal of thought.

3 Q And it is your conclusion that it really couldn't
4 be done?

5 A It's my conclusion that it would be a very
6 difficult thing to do; it would be very expensive, a very
7 difficult thing to do.

8 I have thought about how it might be done with
9 certain operations, but not for all of the costs in the
10 system.

11 Q But without even having tried to do it, you would
12 say it's too difficult to try, right?

13 A I'm obviously not the one to try it. This would
14 be something that the Postal Service would have to do. And
15 it would be time consuming and expensive.

16 MR. OLSON: Thank you, Mr. Chairman.

17 CHAIRMAN GLEIMAN: Is there any followup?

18 [No response.]

19 CHAIRMAN GLEIMAN: Questions from the Bench?

20 [No response.]

21 CHAIRMAN GLEIMAN: If not, Mr. McLaughlin, would
22 you like a few minutes with your witness to prepare for
23 redirect?

24 MR. McLAUGHLIN: Give us about five minutes.

25 CHAIRMAN GLEIMAN: You've got it.

1 [Recess.]

2 CHAIRMAN GLEIMAN: We are ready whenever you are,
3 folks. You found your place?

4 MR. McLAUGHLIN: I just wanted to mention, by the
5 way, that Ms. Crowder also filed work papers with her
6 testimony. We have not moved them into evidence. I am not
7 sure that they need to be in evidence. They obviously are
8 the work papers that underlie her various calculations.

9 If someone wants them in evidence, we can do that.
10 I think that they are really in essence treated as
11 evidence anyway, is that correct?

12 CHAIRMAN GLEIMAN: That is generally correct, yes.

13 MR. McLAUGHLIN: Okay. I just wanted to clarify
14 that.

15 REDIRECT EXAMINATION

16 BY MR. McLAUGHLIN:

17 Q Ms. Crowder, you had some lengthy discussion with
18 Mr. Straus concerning your comparison with DSO private
19 delivery rates and Postal Service rates on page 22. That is
20 Table 3-6, and I think that he was talking about a solo,
21 someone wanting solo saturation distribution.

22 Now is it your understanding that distribution
23 through DSO is normally part of a saturation distribution
24 that couples DSO's nonsubscriber distribution with the daily
25 newspapers' subscriber distribution?

1 A Yes, it is.

2 Q And if for example K-Mart decided it wanted to
3 distribute a preprint on a saturation basis, would you
4 expect that it would go to DSO and ask DSO to distribute the
5 entire thing by private delivery or would DSO more likely or
6 even the retailer more likely go to the newspaper and say
7 give me saturation distribution using newspaper insert plus
8 nonsubscriber TMC distribution?

9 A It is my understanding that a mailer, an
10 advertiser like K-Mart would ask for total market coverage
11 through the newspaper, combination of newspaper and TMC.

12 Q In that case the rate comparison the retailer
13 would be looking at is the newspaper combined distribution
14 rate against, for example, a shared mail or shopper insert
15 rate, is that correct?

16 A Yes. Yes, it is.

17 Q Now what if K-Mart said I don't want to have you,
18 DSO, excuse me -- let me back up.

19 What if K-Mart said I want to get saturation
20 distribution and DSO, I want you to do it and in fact I
21 don't want to be in the newspaper for the subscriber
22 portion. I want you to deliver my piece all by itself to
23 each subscriber household as sort of an extra run up to each
24 of these houses with one piece of mail.

25 In that case, would that be more comparable to a

1 solo distribution or to a shared type distribution? By
2 shared distribution I am referring to shared newspaper
3 insert distribution with other inserts or shared mail
4 distribution?

5 MR. STRAUS: I think I need that question
6 clarified.

7 You said that K-Mart would want the brochure
8 distributed just to subscribers?

9 MR. McLAUGHLIN: No. No, now let clarify it.

10 MR. STRAUS: You said to each subscriber
11 household. That's what --

12 MR. McLAUGHLIN: Let me clarify it.

13 MR. STRAUS: I think you have Private Express
14 problem.

15 MR. McLAUGHLIN: K-Mart in both of these examples
16 is asking for saturation distribution in total. The normal
17 situation, in fact I think it is almost the universal
18 situation is that K-Mart goes to the newspaper and gets the
19 saturation distribution through the newspaper insert with a
20 combination rate through the TMC.

21 In the second situation K-Mart also wants
22 saturation distribution but it goes to DSO and it says I
23 want DSO to do the distribution. I don't want my piece to
24 be commingled with other retail preprints inside the
25 newspaper going to subscribers. I want to have DSO deliver

1 it to subscribers as a stand-alone piece being the only
2 piece going up to the house for subscribers and then
3 nonsubscribers will get it along with the TMC product going
4 to the nonsubscriber houses.

5 BY MR. McLAUGHLIN:

6 Q In that situation, would that type of use be more
7 comparable to a shared type distribution or to a solo type
8 distribution?

9 A In the case where the K-Mart piece is going partly
10 in the newspaper and partly in DSO, that would be more like
11 a shared package.

12 In the case where it is going full coverage only
13 through the private delivery company that would be like a
14 solo piece.

15 Q Now let's take the situation of a shopper. Is it
16 your understanding that a shopper publication under DSO --
17 that DSO will accept shopper publications?

18 A Yes.

19 Q At the rates that you have shown in this table?

20 A Yes, and that is what I thought I was talking
21 about.

22 Q And let's take for example a five ounce shopper
23 publication.

24 Is it possible that the shopper publication might
25 not want -- might want saturation distribution but might not

1 want to be inside the newspaper going to subscribers but to
2 be by itself?

3 A Yes.

4 Q In that case the rate it pays is the DSO
5 saturation rate that has no newspaper insert distribution as
6 a part of its distribution, is that correct?

7 A Yes.

8 Q In your view, is that more comparable to a shared
9 mail distribution or to a solo mail distribution rate?

10 A Well, obviously it is solo.

11 Q And so the appropriate comparison in that case
12 would be to the Postal Service rate as opposed to the
13 saturation mailer rate?

14 A Yes. If this is already a saturation package
15 going by itself full coverage then it is comparable.

16 MR. McLAUGHLIN: Mr. Chairman, that is all I have.

17 CHAIRMAN GLEIMAN: Any cross?

18 [No response.]

19 CHAIRMAN GLEIMAN: If there is no recross, then
20 Ms. Crowder, that completes your testimony here today.

21 We appreciate your appearance, your contributions
22 to the record. We are happy to know that you are not going
23 to get locked in the garage tonight.

24 We want to thank you and you are excused.

25 [Witness excused.]

1 CHAIRMAN GLEIMAN: Our next witness is a Postal
2 Service witness.

3 Mr. Alverno, if you would like to call your
4 witness.

5 MR. ALVERNO: Thank you, Mr. Chairman. The Postal
6 Service calls Dr. A. Thomas Bozzo.

7 Whereupon,

8 A. THOMAS BOZZO,
9 a witness, having been recalled for examination and, having
10 been previously duly sworn, was examined and testified
11 further as follows:

12 CHAIRMAN GLEIMAN: Dr. Bozzo is already under oath
13 in these proceedings, so you may proceed, counsel, to
14 introduce his testimony.

15 DIRECT EXAMINATION

16 BY MR. ALVERNO:

17 Q Dr. Bozzo, earlier I handed you two copies of a
18 document entitled "Rebuttal Testimony of A. Thomas Bozzo,"
19 marked as USPS-RT-18, and I have now given those copies to
20 the reporter. Did you have a chance to examine them?

21 A I did.

22 Q And was this testimony prepared by you or under
23 your direction?

24 A It was.

25 Q And if you were to testify orally today, would

1 your testimony be the same?

2 A It would.

3 MR. ALVERNO: Mr. Chairman, I ask that the
4 rebuttal testimony of A. Thomas Bozzo marked as USPS-RT-18
5 be received as evidence and transcribed into the record at
6 this time.

7 CHAIRMAN GLEIMAN: Without objection, if I could
8 get counsel to provide two copies of the testimony to the
9 court reporter, if he has not already done so, and he has, I
10 will direct that the testimony, the rebuttal testimony of
11 Witness Bozzo be transcribed into the record and entered
12 into evidence.

13 [Rebuttal Testimony of A. Thomas
14 Bozzo, USPS-RT-18, was received
15 into evidence and transcribed into
16 the record.]

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USPS-RT-18

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY
OF
A. THOMAS BOZZO
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE
(CONCERNING ESTIMATES OF COST BY WEIGHT INCREMENT)

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Autobiographical Sketch

My name is A. Thomas Bozzo. I am a Senior Economist with Christensen Associates, an economic research and consulting firm located in Madison, Wisconsin. My education and experience are described in detail in my direct testimony, USPS-T-15.

1 **I. Purpose and Scope of Testimony**

2 The Postal Service's methodology for estimating volume-variable cost by
3 weight category for First-Class Mail and Standard Mail (A) subclasses is given by
4 witness Daniel (USPS-T-28). The purpose of this testimony is to rebut criticisms
5 of this analysis by witnesses Clifton (ABA&NAPM-T-1), Haldi (VP/CW-T-1),
6 Tye (NAA-T-1), and White (AAPS-T-1).

7 In Section II, I show that, given how the Postal Service pricing witnesses
8 use the cost information provided by witness Daniel, witness Daniel's analysis is
9 sufficient for the rate design for First-Class Mail additional ounces and for piece-
10 and pound-rated Standard Mail (A). In Section III, I report correctly calculated
11 standard errors to demonstrate that data "thinness" is not a problem for the
12 disaggregated costs used by witnesses Fronk and Moeller in developing rates
13 based on witness Daniel's cost estimates. In Section IV, I show that the
14 estimated relationship between weight and volume-variable route and load costs
15 for city carriers provided by witness Daniel falls within reasonable bounds, and
16 that, for pound-rated ECR, her estimates approach the upper bound on the
17 weight-cost relationship. In Section V, I show that witness Daniel provides cost
18 data that are sufficient for the rate design for first ounce and additional ounce
19 First-Class Mail and for piece- and pound-rated Standard Mail (A). The
20 testimony is summarized in the last section.

21 Library Reference LR-I-456, which is incorporated by reference in this
22 testimony, contains the background material for the analyses reported in this

1 testimony. The accompanying diskette contains electronic versions of the
2 spreadsheets used for the analyses presented herein.

3 **II. The analysis used by witness Daniel is sufficient for the rate design**
4 **for First-Class Mail additional ounces and for piece- and pound-rated**
5 **Standard Mail (A).**

6 Drs. Haldi and Tye dispute the fact that the same method used to develop
7 CRA cost by subclass can be used to analyze costs by weight increment within
8 subclasses (Tr. 32/15833 and Tr. 30/14699). Each of their arguments will be
9 addressed below.

10 Witness Haldi criticizes the use of "direct" piece handling tallies to
11 distribute mixed mail tallies and not-handling tallies to weight increment.¹ He
12 states that:

13 [I]f direct-piece handling tallies are used to distribute mixed mail tallies to
14 weight increment, and if those direct piece-handling tallies show little
15 relationship between weight and cost, their use will mask the underlying

¹ When an IOCS tally is taken, the activity performed by the sampled employee at a randomly selected point in time is recorded. The classification of the recorded tally depends on the observed activity of the sampled employee. As defined by the proposed Docket No. R2000-1 cost distribution methodology, a tally is classified as a direct tally if the employee is observed handling mail that may be attributed to a single class. This occurs when an employee is recorded handling a single piece of mail, an item or container with identical pieces of mail, or an item where the top piece rule has been applied. The top piece rule directs the tally taker to record the characteristics of the top piece from a bundle, letter tray, or flat tray containing non-identical mail. A direct tally also results from items, such as pallets, small parcel trays, and sacks, whose entire non-identical contents are counted by subclass and shape.

A mixed mail tally is recorded when an employee is observed handling mail which may not be attributed to a single class of mail. This includes items containing non-identical mail that is not counted. Containers containing non-identical mail are also classified as mixed mail. Employees handling empty items or containers are also recorded as mixed mail tallies because subclass or shape may be inferred from the item or container type (defined by the proposed Docket No. R2000-1 cost distribution methodology).

If a tally is classified as neither a direct or mixed mail tally, it is considered a not-handling tally. Not-handling tallies convey no shape or subclass information.

1 causal relationship between weight, the number of containers that must be
2 moved manually through the facility, and the additional cost of such
3 movement that is caused by more weight and cube...the systematic bias
4 is to understate the effect of weight on cost (Tr. 32/15836).

5 Witness Haldi further states that:

6 It seems completely inappropriate to use direct tallies from individual
7 piece-handling operations to distribute to weight increment the costs
8 associated with some, if not all, of the not handling tallies. The effect of
9 weight will be systematically understated (Tr. 32/15833).

10 Neither of these statements reflects a complete and accurate description
11 of the Postal Service's mail processing cost distribution methodology.²

12 Consequently, witness Haldi's conclusions are unfounded.

13 First, consider the IOCS sample design. At a basic level, IOCS provides
14 estimates of the proportions of labor time by activity in the sampled crafts. So,
15 for any two activities represented in the IOCS questionnaire, if activity A requires
16 more labor time—and hence cost—than activity B, then there will be more tallies
17 for activity A than for activity B, at least statistically. On the other hand, if activity
18 A and activity B require the same labor time, the total tallies will not differ
19 significantly. Now, to give a more concrete example, suppose activity A is
20 handling tubs of piece-rated flats, and activity B is handling tubs of pound-rated
21 flats. In general, these activities will be recorded as direct tallies in IOCS. From
22 the preceding discussion, it follows immediately that to whatever extent heavier
23 flats fill tubs faster than lighter flats, and hence require a disproportionate share

² I limit the discussion below to mail processing, since the city carrier in-office component consists largely of a single activity—manually casing non-DPS mail—so criticisms related to cross-activity cost distribution are inapplicable.

1 of the flat tub handlings, the relative tally proportions between the two activities
2 will correspond.

3 If weight information were available for every handling tally, clearly there
4 would be no difficulty in estimating cost by weight increment using IOCS.
5 However, many of the handling mail observations are mixed-mail tallies in which
6 detailed information on the mail is not available. In these cases, it is necessary
7 to infer the likely contents of the mail being handled by subclass and other
8 characteristics. The mixed-mail tallies contain ample information on shape and,
9 in some cases, class of mail, to inform the mixed-mail distributions. To use this
10 information appropriately, the Postal Service's methods, by design, do not
11 distribute mixed-mail tallies from one type of handling activity on direct mail tallies
12 from a completely different type of handling activity, contrary to Dr. Haldi's
13 criticism quoted above. In the terminology of the distribution key analysis, the
14 Postal Service's mixed-mail distributions are "stratified" by both the mail
15 processing operation or "cost pool"³ and the type of item or container being
16 handled. Direct tallies representing single piece handlings would only appear in
17 mixed-mail distribution keys for observations of loose mixed pieces of the same
18 shape (as might be found in a hamper, for example). Mixed-mail tallies that
19 represent what Dr. Haldi might consider weight-driven activities (e.g., handling
20 trays or pallets) are distributed using direct tallies from the same type of handling

³ The main exception is that mixed-mail observations in the MODS Platform cost pool are distributed using direct tallies of the same item or container type in all allied labor cost pools.

1 activity. Since the equipment being handled is usually associated with a shape,
2 such as a letter or flat tray, and shape conveys information on weight, there is a
3 reasonable basis for inferring the weight distribution of the mixed-mail
4 observations. From the IOCS sample design, the weight-cost relationship for an
5 activity will be reflected in the proportion of direct tallies by weight category for
6 the activity. The Postal Service's mixed-mail distribution method ensures that the
7 mixed-mail tallies have the same relationship.⁴

8 Witness Haldi's characterization of the implicit distribution of not-handling
9 costs in witness Daniel's analysis simply ignores important features of the Postal
10 Service's methodology as well as the justification of the methodology. First, the
11 Postal Service's distribution method does not generally distribute the costs
12 associated with not-handling tallies outside of the operational cost pool in which
13 the tallies appear. Where mail handlings from sorting operations enter the
14 distribution keys, most notably in allied labor cost pools, they do so in recognition
15 of the relationship between allied labor cost pools and the distribution operations
16 they support, a point on which there is agreement among multiple witnesses in
17 this docket.⁵ This method is further validated by the available econometric
18 evidence (see response to MPA/USPS-T15-1 at Tr. 15/6251-6255). Witness

⁴ Even though witness Haldi's criticisms hinge on the contention that tallies from "weight driven functions" are inappropriately distributed using tallies from supposedly non-weight related functions, he was unable to specify which cost pools represented such functions, or how the distribution methods for those cost pools relate to his criticisms (Tr. 32/15926).

⁵ See Postal Service witness Degen (USPS-T-16 at 74) and Time Warner witness Stralberg (TW-T-1 at 30).

1 Haldi's examples of weight-related not-handling activities, such as disposing of
2 pallet shrink-wrap (Tr. 32/15832), are obviously not significant contributors to
3 mail processing costs (a few seconds of labor time being "shared" among
4 hundreds or thousands of pieces).⁶

5 In short, witness Haldi has done nothing more than describe a variety of
6 potential shortcomings of a mail processing cost distribution system—many of
7 which, indeed, were present in the abandoned LIOCATT method—that have
8 been overcome in the Postal Service's MODS-based cost distribution approach.
9 Witness Haldi's arguments are not legitimate grounds for rejecting witness
10 Daniel's distribution of mail processing costs to weight increment.

11 Witness Haldi's numerical analysis of the Standard Mail (A) ECR letter
12 cost estimates at Tr. 32/15847 does not support his contention that "tallies from
13 non-weight driven functions should not be used to distribute the costs of weight-
14 driven functions" (Tr. 32/15846). In his computation of "link relatives" for ECR
15 letters by one-ounce increment, the first "anomaly" occurs in the 4-to-5 ounce
16 range (Tr. 32/15847). The fact that is evident in witness Haldi's table, but which
17 he does not discuss, is that the zero-to-4 ounce increments contain 99.8 percent
18 of the Test Year ECR letter piece volume, and 99.4 percent of the volume-
19 variable costs (per witness Daniel's calculations; see USPS-LR-I-92). The
20 problem is not with IOCS, *per se*, but slicing the data too thinly. That there

⁶ Witness Haldi also cites activities such as obtaining and staging empty equipment (Tr. 32/15832). It should be noted that the associated tallies are treated as handlings in the Postal Service's cost distribution method, and thus receive the appropriate weight distribution for the equipment type.

1 should be a relatively high degree of sampling variation in the cost estimates for
2 the remaining 0.2 percent slice of the ECR letter volume hardly indicts the Postal
3 Service's cost systems as a whole. If anything, it simply highlights the
4 undesirability of excessive reliance on those individual point estimates that are
5 subject to relatively high sampling variation—which witnesses Fronk and Moeller
6 have avoided by considering only trends and relationships among the data.⁷

7 Witness Tye miscomprehends witness Daniel's testimony as well. He
8 incorrectly claims that witness Daniel's "current distribution is essentially the
9 same as that rejected in Docket No. R97-1" (Tr.30/14698). To the contrary, the
10 CRA-based method employed by witness Daniel constitutes a significant
11 advance over witness McGrane's analysis from Docket No. R97-1,⁸ precisely
12 because it is the first weight distribution method to recognize the differences in
13 the composition of handlings between direct and mixed mail tallies (USPS-T-28
14 at 4).

15 **III. Relative standard errors show that data "thinness" is not an issue**
16 **for the disaggregated costs used by witnesses Fronk and Moeller.**

17 Witnesses Tye and Clifton contend that IOCS data "thinness" is a
18 significant problem for estimates of clerk and mail handler and city carrier in-

⁷ Alternatively, one could employ a technique such as regression to estimate the underlying cost relationship from the "noisy" detailed data.

⁸ Witness McGrane applied the weight distribution of direct tallies (without adjustment for the composition of handlings between direct and mixed-mail tallies) to distribute subclass costs (see Docket No. R97-1, Exhibit USPS-ST-44 (USPS LR-H-182) at 3).

1 office volume-variable cost by subclass and weight increment.⁹ Witness Tye
2 states that “the number of tallies from which [the distribution key analysis] is
3 derived are far too thin on which to base such a significant change in rate design”
4 (Tr. 30/14700). Witness Clifton contends that:

5 Witness Daniel’s cost data for First Class presort is not statistically
6 significant using reasonable tests and assumptions. Her IOCS tallies are
7 too few and as a result much of her presort cost data is erroneous or
8 statistically insignificant (Tr. 26/12395).

9 As I will demonstrate, relative standard errors show that the weight interval
10 costs used by witnesses Fronk and Moeller are quite precise. Hence the
11 arguments of witnesses Tye and Clifton should be rejected.

12 According to the design of IOCS, proportions of tallies reflect proportions
13 of labor time spent on the underlying activities. Therefore, relatively small
14 volume (and/or low-cost) mail categories should generate relatively few tallies
15 given the overall sample size. For small mail categories, the data are
16 appropriately thin—the few tallies correctly reflect the relatively small costs
17 incurred by the associated mail category. Thus, the problem, if there even is
18 one, would not be the data thinness, *per se*, but rather the effect it has on the
19 relative standard errors of some narrowly-defined weight increments. The
20 solution, when large increases in sample size are impractical (as is the case
21 here), is to limit the reliance upon individual point estimates that are subject to
22 large sampling variation. This is exactly what witnesses Fronk and Moeller do by

⁹ In contrast, witness Haldi states that “the issue of small sample size is something of a red herring” (Tr. 32/15844).

1 using relatively large aggregates over weight increments.¹⁰ The corresponding
2 cost estimates are, therefore, not subject to tally "thinness" and unusually large
3 sampling variation.

4 Since the data thinness "problem" manifests itself in relatively high
5 standard errors of the cost estimates, criticisms pertaining to it are appropriately
6 resolved by calculating coefficients of variation (CVs, or relative standard errors)
7 of the relevant cost estimates. None of the intervenor witnesses correctly
8 computes coefficients of variation for the cost estimates actually employed by
9 Fronk and Moeller.¹¹ For the IOCS-based cost estimates used by witnesses
10 Fronk and Moeller, there are two available methods for computing standard
11 errors, the bootstrap and the generalized variance function (GVF).¹² The method
12 I employ to estimate CVs for the cost estimates used by witnesses Fronk and
13 Moeller is the GVF, which is also employed by witness Ramage in his response
14 to ANM/USPS-T2-13 (Tr. 4/1116). Estimated costs and CVs for the First-Class
15 Mail and Standard Mail (A) weight increments for which witnesses Fronk and
16 Moeller develop proposed rates are presented in Tables 1 and 2, below.

¹⁰ The weight groupings of mail for which witnesses Fronk and Moeller develop rates are relatively large.

¹¹ Witness Clifton attempts to do so for some First-Class Mail groupings, but commits a serious error by misinterpreting measures of the variation in cost from one weight increment to another as measures of the IOCS sampling variation in the cost estimates for First-Class Mail above one ounce (see Clifton Workpaper 3, ABA&NAPM-LR-1).

¹² Both techniques represent approaches for computing standard errors when the sample design and/or the mathematical form of the estimators are too complicated to permit the use of closed-form variance formulas. As was the case for witness Ramage, the bootstrap is too time- and computation-intensive to be employed here (See Response to ANM/USPS-T2-13 at Tr. 4/1116).

1 **Table 1.**
 2 **BY98 IOCS-Based Cost and CV Estimates for First-Class Letters and**
 3 **Sealed Parcels Subclass**

	Weight Increment	
	<u>0-1 oz.</u>	<u>1+ oz.</u>
Estimated cost (\$000)	10,222,417	3,113,956
Estimated CV	0.4%	0.7%

4 Source: Response to ANM/USPS-T2-13 (Tr. 4/1116-1117)

5 **Table 2.**
 6 **BY98 IOCS-Based Cost and CV Estimates for Standard Mail (A)**

		Weight Increment	
		<u>0-3 oz.</u>	<u>3+ oz.</u>
ECR	Estimated cost (\$000)	439,038	154,973
	Estimated CV	1.7%	2.8%
Regular	Estimated cost (\$000)	1,818,698	842,700
	Estimated CV	0.9%	1.3%
Nonprofit ECR	Estimated cost (\$000)	58,957	8,309
	Estimated CV	4.5%	11.3%
Nonprofit	Estimated cost (\$000)	470,992	71,739
	Estimated CV	1.7%	4.1%

7 Sources: GVF, Response to ANM/USPS-T2-13 (Tr. 4/1116-1117).
 8 Costs, USPS-LR-I-99 and USPS-LR-I-100, total of mail processing and
 9 window service components and city carrier in-office components,
 10 respectively.

11 The estimated CVs for the IOCS-based cost estimates used by witnesses
 12 Fronk and Moeller are generally small, consistent with the relatively large costs of
 13 the rate categories and weight increments at issue. Only one category, Nonprofit
 14 ECR weighing more than three ounces, has an estimated coefficient of variation
 15 (11.3 percent) exceeding 10 percent. The remaining coefficients of variation
 16 range from less than one percent to less than 5 percent, indicating relatively low

1 sampling error for the cost estimates due to IOCS. As an indication of the
2 magnitude of the error in the computations presented in witness Clifton's
3 Workpaper 3, consider the CV for First-Class Presort above one ounce (as
4 reported here, using the correct application of the GVF). It is 1.8 percent, which
5 is approximately 1/35 of the 63 percent CV implied by the results reported by
6 witness Clifton in his Table 5.

7 Correct calculation of the coefficient of variation shows that data "thinness"
8 is not a concern for the First-Class and Standard Mail (A) rate designs.

9 **IV. The available data do not permit empirical estimates of the**
10 **relationship between weight and volume-variable city carrier route**
11 **and load costs, but it is straightforward to place bounds on the**
12 **relationship.**

13 In contrast to the IOCS data used to develop clerk and mail handler and
14 city carrier in-office costs, the data systems used to develop volume-variable city
15 carrier street costs¹³ (cost segment 7) provide no information with which to
16 directly estimate subclass cost by weight increment. In response to criticisms of
17 past Postal Service methods to disaggregate street costs by weight increment,
18 witness Daniel introduces a method using RPW weight by subclass and shape to
19 distribute subclass load costs from the CRA to weight increment. Witness
20 Daniel's analysis employs distribution keys based on RPW pieces by subclass
21 and weight increment to distribute route and access costs. As discussed below,
22 the intervenors' criticisms of witness Daniel's approach do not withstand scrutiny.

¹³ Street costs are composed of route costs (costs associated with walking the route without making stops), access costs (costs associated with making the stop excluding load costs), and load costs (costs of loading the box).

1 Witness Tye considers the new weight distribution keys for load costs to
2 be an improvement over past practice, but states that by using piece-based
3 distribution keys for route and access costs, witness Daniel did not go far enough
4 (Tr. 30/14699). Witness White also criticizes the piece-based keys for route and
5 access costs (Tr. 22/9960). Witness Haldi, in contrast, contends that witness
6 Daniel's weight-based keys for load time are inconsistent with the CRA methods,
7 and underscores the need for the Postal Service to develop data to estimate the
8 effect of weight on city carrier street costs (Tr. 32/15849).

9 Witnesses Haldi's position that additional data are needed to completely
10 resolve city carrier street costs by weight increment fails to acknowledge that the
11 available data do provide useful cost information in the form of bounds on the
12 street costs by weight increment. That is, using weight as a distribution key
13 assumes unit costs are proportional to weight and provides an upper bound on
14 the weight-cost relationship. In contrast, using pieces (by shape), as was done
15 for the distribution key for segment 7 in Docket No. R97-1, assumes no
16 relationship between weight and cost, and so the results provide a lower bound
17 on the weight-cost relationship. While the assumptions may appear extreme, I
18 show below that the range of uncertainty between the alternative weight
19 distributions of street costs is comparable in magnitude to the sampling error of
20 the unit cost estimates. The difference between the lower and upper unit cost
21 bounds is small and often statistically insignificant for the cost estimates
22 employed in the rate design presented by witnesses Fronk and Moeller.

1 I also demonstrate that because of the relative size of the pools of volume-
2 variable route and load costs, witness Daniel's cost estimates for pound-rated
3 Standard Mail (A) are nearly identical to the upper bound. Thus, to the extent the
4 actual costs are lower than the upper bound and witness Daniel's estimates, the
5 cost justification for a reduction in the pound rate would be strengthened.

6 **A. Access cost distribution**

7 Neither witness Haldi, witness Tye, nor witness White expressly criticize
8 witness Daniel's distribution of access costs. Witness Daniel's access cost
9 distribution is consistent with CRA methods and is appropriate. Conceptually,
10 access costs are the street costs caused by actual stops or the deviation from
11 the route to receptacles, as witness Daniel correctly states (USPS-T-28 at 8).
12 Access costs, therefore, are volume-variable to the extent that additional
13 volumes require additional stops to be accessed. The need to access the stop is
14 a function of the presence of the piece that causes the stop and is not affected by
15 the weight of that piece. Nor does the time needed to access the stop vary
16 materially with the weight of the piece that causes the stop—for instance, the
17 time required for the carrier to access the stop is essentially the same whether
18 the stop is caused by a one ounce or two ounce piece.

19 **B. Route cost distribution**

20 Witness Daniel's characterization of route costs as "the time spent by the
21 carrier traversing the course of the route without deviating to make stops"
22 (USPS-T-28 at 8) is substantially correct. Witness Daniel concludes that the

1 volume-variable portion of route cost should not vary significantly with weight, so
2 she distributed route costs to weight increment using pieces. Witness White
3 criticizes witness Daniel's approach as inconsistent with his experience in
4 running a delivery business (Tr. 22/9960).¹⁴

5 Prior to Docket No. R97-1, route costs were treated as fully institutional.
6 However, since the time spent by the carrier traversing the course of the route
7 without deviating to make stops is not directly observable—instead, one
8 observes the actual driving time when there is mail. Therefore, route time as
9 measured includes a portion of driving time that is volume-variable to a small
10 degree. Driving time varies somewhat with the number of dismount points
11 required on park-and-loop routes. Since the required number of dismounts
12 depends in part on the amount (specifically, the total weight) of mail to be
13 delivered on a particular loop, route costs are partly volume-variable due to the
14 volume-variability of the dismounts (see Docket No. R97-1, USPS-T-10).
15 Nevertheless, the vast majority of route costs are simply non-volume-variable. It
16 is my understanding that the Postal Service is presenting evidence that route
17 costs are properly treated as fully institutional.

¹⁴ Witness White also provides an example showing how a 6-2/3 percent increase in weight caused his carriers to walk an additional 50 miles over a one year period (Tr. 22/9960), though the example omits the critical detail of what percentage increase in walking distance the 50 miles represents.

1 **C. Load cost distribution**

2 For load costs, witness Daniel specifies the weight distribution by subclass
3 and shape to disaggregate the load time costs. Witness Daniel suggests that the
4 weight distribution key may overstate the cost-weight relationship for load costs,
5 but that its use would offset the use of pieces as the route and access distribution
6 keys (USPS-T-28 at 8). Witness Haldi compares the CRA methodology to
7 witness Daniel's weight distribution key and argues that her approach is not valid
8 (Tr. 32/15849). The purpose for which witness Daniel used the weight distribution
9 key, however, was to disaggregate subclass cost by weight increment, thereby
10 illustrating the upper bound of the weight-cost relationship for the pound rate
11 pricing exercise. Thus, by using weight as a distribution key, witness Daniel
12 adopted a conservative assumption with respect to the proposal to lower the
13 ECR pound rate.

14 **D. Witness Daniel's cost estimates are much closer to the upper bound**
15 **method for carrier street costs than the lower bound method.**

16 In using pieces as the distribution key for route costs and weight as the
17 distribution key for load costs, witness Daniel employs the lower bound on the
18 cost-weight relationship for the route costs and the upper bound for the load
19 costs. Bounds on the cost estimates used by witnesses Fronk and Moeller can
20 be computed simply by specifying the lower- or upper-bound distribution method
21 for both cost components. In Tables 3 and 4 below, I present the bounds on the
22 Test Year cost estimates provided by witness Daniel to Fronk and Moeller, as
23 well as those employed by witness Tye for pound-rated mail (Tr. 30/14709). The

1 supporting calculations, which are derived from material presented in USPS-LR-
2 I-91 and USPS-LR-I-92, are provided in USPS-LR-I-456.

3 To the extent load costs vary with weight to a lesser degree than that
4 assumed by witness Daniel, as witness Haldi's testimony seems to imply, the
5 "true" costs would be closer to the *lower* bound than the upper bound. In that
6 case, the implicit Standard Mail (A) cost coverages reported by witnesses
7 Moeller and Tye for pound rated mail would be overstated, particularly for ECR.
8 Substituting the lower bound costs into witness Moeller's after rates implicit cost
9 coverage calculations increases the implicit cost coverage for pound rated ECR
10 considerably, to nearly 250 percent. See Table 5. Since witness Daniel's cost
11 estimates approach those produced with the upper bound method, the likely
12 direction of any error would, if anything, strengthen the cost-based justification for
13 reducing the ECR pound rate.

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2
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Table 3.
Test Year Unit Volume-Variable Cost (cents),
First-Class Letters and Sealed Parcels Above One Ounce

	Lower Bound	Daniel	Upper Bound
First-Class Letters & Sealed Parcels	46.5	47.5	47.6
Single Piece	50.0	50.9	51.0
Presort	31.5	33.0	33.1

4

Source: Daniel, LR-I-91. Lower and Upper Bounds, LR-I-456.

5
6
7

Table 4.
Test Year Unit Volume-Variable Cost (cents),
Pound-Rated Standard Mail (A)

	Lower Bound	Daniel	Upper Bound
Based on costs for pieces above 3 ounces			
ECR	7.83	9.01	9.22
Regular	24.76	25.5	25.7
Nonprofit ECR	10.42	12.05	12.26
Nonprofit	27.22	28.63	28.93
Based on costs for pieces above 3.5 ounces			
ECR	7.79	9.16	9.41
Regular	27.31	28.16	28.44
Nonprofit ECR	10.95	12.86	13.1
Nonprofit	30.5	32.21	32.55

8

Source: Daniel, LR-I-92. Lower and Upper Bounds, LR-I-456.

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10
11

Table 5.
Implicit Cost Coverage for Pound-Rated ECR
Using Lower Bound Costs

	After Rates Revenue	Cost (lower bound method)	Implicit Cost Coverage	Implicit Cost Coverage (Moeller)
3.0-oz dividing line	0.19472	0.0783	248%	216%
3.5-oz dividing line	0.19472	0.0779	250%	213%

12
13

Source: Cost, Table 4. Revenue and Moeller Cost Coverage, USPS-T-35 at 24.

1 **V. Witness Daniel provides cost data that are sufficient for the rate**
2 **design for first ounce and additional ounce First-Class Mail and for**
3 **piece- and pound-rated Standard Mail (A).**

4 From the great effort that witnesses Clifton, Haldi, and Tye expend on
5 criticism of some of the finely disaggregated cost data presented in witness
6 Daniel's supporting documentation, one could lose sight of the fact that neither
7 witness Fronk nor witness Moeller relies upon the detailed costs by weight
8 increment. Calculation of proposed rates does not require determination of the
9 effect of every factor that might impact the cost of that mail category. In the case
10 of the data witness Daniel supplies to witnesses Fronk and Moeller, it is true, but
11 irrelevant, that witness Daniel's data do not clearly identify the precise effect of
12 mailpiece weight on cost in isolation from other factors. She needed only
13 determine the cost of the mail subject to the First-Class additional ounce rate and
14 Standard Mail (A) piece and pound rates in the aggregate. For this purpose, the
15 available cost data are sufficient, for all the reasons I describe above.

16 The adequacy of the cost data and the goals of the rate design are linked.
17 The criticisms of the Postal Service's data on cost by weight increment in witness
18 Haldi's testimony and in the Data Quality Study (which witness Haldi cites)
19 suppose the need for data measuring the effect of mailpiece weight on cost *in*
20 *isolation from other factors*. However, neither witness Haldi nor the authors of
21 the Data Quality Study ever establish the need (in the ratemaking context) for
22 data measuring the isolated effect of mailpiece weight on cost. In the case of the
23 First-Class additional ounce rate, witness Fronk makes clear that the additional
24 ounce rate is not designed to reflect cost differences based solely on weight and

1 it would not necessarily be desirable to do so (USPS-T-33 at 25-26). In the
2 case of Standard Mail (A), the rate design does not distinguish potential cost
3 differences due to factors such as origin-destination pairs (due to length of haul,
4 processing patterns, etc.) and takes limited account of shape and even weight
5 itself. Furthermore, even witness Haldi indicates that he is "not sure what
6 purpose is achieved by costing separately letter-shaped pieces above the
7 breakpoint" (see response to USPS/VP-CW-T1-20(a) at Tr. 32/15932)—that is,
8 controlling for DMM shape. As a result, the cost data needed to support the
9 additional ounce and pound rates need not satisfy the excessively stringent
10 requirements suggested by witness Haldi.

11 VI. Summary

12 As I have clearly demonstrated, the criticisms of witness Daniel's weight-
13 cost analysis put forth by witnesses Haldi, Clifton, Tye, and White discussed in
14 this testimony do not withstand scrutiny. Data "thinness" is not an issue for the
15 disaggregated costs used by witnesses Fronk and Moeller—the relative standard
16 errors show that weight interval costs are quite precise. Witness Daniel's city
17 carrier street cost distribution yields costs that fall within reasonable bounds of
18 the weight-cost relationship. I have demonstrated that witness Daniel provides
19 cost data that are sufficient for the computation of proposed rates for first ounce
20 and additional ounce First-Class Mail and for piece- and pound-rated Standard
21 Mail (A).

1 MR. ALVERNO: Okay. I do have also a Library
2 Reference as well.

3 CHAIRMAN GLEIMAN: Thank you, sir.

4 BY MR. ALVERNO:

5 Q Dr. Bozzo, are you familiar with the Library
6 Reference that is marked as USPS-LR-I-456?

7 A I am.

8 Q And do you sponsor this Library Reference as part
9 of your testimony?

10 A I do.

11 MR. ALVERNO: Mr. Chairman, I ask that the Library
12 Reference marked as USPS-LR-I-456 be received as evidence at
13 this time.

14 CHAIRMAN GLEIMAN: The Library Reference in
15 question will be received into evidence, but not transcribed
16 into the record as is our practice.

17 [USPS-LR-I-456 was received into
18 evidence.]

19 CHAIRMAN GLEIMAN: Oral cross-examination. Three
20 parties have requested oral cross-examination, the American
21 Bankers Association, jointly with the National Association
22 of Presort Mailers, the Newspaper Association of America and
23 Val-Pak Direct Marketing Systems/Carol Wright.

24 Is there any other party who wishes to
25 cross-examine the witness?

1 [No response.]

2 CHAIRMAN GLEIMAN: If not, then, Mr. Hart, you may
3 begin.

4 MR. HART: Thank you, Mr. Chairman.

5 CROSS-EXAMINATION

6 BY MR. HART:

7 Q For the record, my name is Henry Hart,
8 representing the National Association of Presort Mailers.

9 I guess it is good evening, Dr. Bozzo.

10 A Good evening, Mr. Hart.

11 Q I believe you said at the beginning of your
12 rebuttal testimony that included among the purposes of the
13 rebuttal was to rebut criticisms of ABA and NAPM Witness
14 Clifton's criticism of the Postal Service's methodology for
15 estimating volume variable costs by weight category for
16 First Class mail, as given by Witness Daniel, would you
17 agree with that?

18 A If you are looking at page 1, lines 4 to 6, that
19 is -- aspects of Witness Clifton's testimony are the subject
20 of testimony in part.

21 Q And the criticisms which Dr. Clifton made of
22 Witness Daniel concerned her methodology for estimating
23 volume variable costs by weight category for First Class
24 mail. Do you recall that Witness Daniel acknowledged that
25 some of her individual weight increment data in the First

1 Class area was not likely to be very useful?

2 A I think you would have to refer me to a particular
3 statement of Witness Daniel's and also probably provide a
4 more precise definition of useful.

5 Q Let me do so, I don't expect you to have memorized
6 her entire testimony.

7 A Thank you.

8 Q Let me just -- at page 3 of her testimony, line
9 23, she does say -- let me backup to line 21. "The results
10 of the weight analysis presented in this testimony are
11 intended to guide rate design by providing a general
12 indication of the effect weight has on total volume variable
13 costs. They are not necessarily intended to be an exact
14 quantification of costs for every individual weight
15 increment. Isolating the effect of weight on cost is very
16 difficult because weight is rarely the only characteristic
17 that varies between different mail pieces."

18 A While I don't have that in front of me, it would
19 appear that that is what Witness Daniel wrote.

20 Q In large part because of that, did she not use
21 average unit cost for each weight increment taken together
22 rather than estimating or creating a linear trend line
23 showing the impact of weight on cost by ounce?

24 A What portion of Witness Daniel's testimony are you
25 referring to?

1 Q First Class extra ounce presort.

2 A And are you referring to the data that she
3 provided Witness Fronk more specifically?

4 Q Yes. Library Reference 191, I believe.

5 A I believe that the data from Witness Daniel's
6 testimony that Witness Fronk used was an aggregate of cost
7 data for First Class exceeding 1 ounce, and in the zero to 1
8 ounce increments.

9 Q And she weighted it by volume?

10 A Well, the costs are total volume variable costs
11 for mail in the 1 ounce and up increments. So there is not
12 a volume weighting issue in the aggregate costs, per se.
13 That is, she is not providing a trend line, she is providing
14 a volume variable cost total for mail with those
15 characteristics.

16 Q Okay. Do you recall that Witness Fronk
17 acknowledged that there was, and this is a quote from page
18 24 of his testimony, "difficulty in measuring additional
19 ounce costs with the highest degree of precision on a
20 weight-step by weight-step basis"?

21 A Again, you are referring to a particular -- that
22 is a particular statement at page 24 of Fronk's testimony?

23 Q Let me ask you this, that is not fair. Let me ask
24 you to accept, subject to check, that he did state that in
25 his testimony. Is that consistent with what you understand

1 to be his view of Daniel's extra ounce cost testimony in the
2 First Class Presort area?

3 A Yes, and I don't believe that there is any
4 question that the individual, the data for individual ounce
5 or half-ounce increment is subject to sampling variation, as
6 they are derived largely from statistical sampling systems.

7 Q In particular, I believe this is shown in the
8 Library Reference 1-91. Subject to check but did you
9 acknowledge that some of the raw data used by Daniel in the
10 presort First Class letters area had datapoints showing
11 average unit cost for presort letter ranging from \$2.52 for
12 the 6 to 7 ounce range, \$7.53 to the 7 to 8 ounce range,
13 then only 53 cents for the 8 to 9 ounce piece and four
14 hundred and eighty-eight dollar cost for the first
15 half-ounce of parcels.

16 Do those --

17 A Those numbers don't ring a particular bell but
18 again if you pick data from the smallest weight increments
19 you will indeed find numbers that are subject to substantial
20 sampling variation.

21 Q And on a -- if you focused on that particular
22 ounce increment in those examples, the data as to that
23 particular ounce increment would not be very credible, would
24 it?

25 A Well, again it depends on how you define credible.

1 As a statistician I would usually define credible
2 in terms for instance of whether it provides an estimate
3 that is correct on average and again that may be subject to
4 considerable sampling variation.

5 Again there clearly are individual ounce increment
6 estimates that are subject to sampling variation. As I
7 stated in my testimony, that is simply a good reason for
8 Witness Fronk to have looked at higher aggregates of the
9 individual ounce increment data.

10 Q Put another way, if you were to focus solely on
11 the 7 to 8 ounce increment and saw a cost of \$7.53 per
12 piece, if you focused solely on that increment you would not
13 find that very credible, would you, that data?

14 A Well, I would -- again it depends on, it depends
15 in general on what the data represents. I would agree that
16 it is likely to be a value that is subject to quite a lot of
17 sampling error and I think it is appropriate for the Postal
18 Service not to rely on that particular estimate in isolation
19 to develop its pricing proposals.

20 Q Do you think it is fair to say that the main point
21 of contention or difference between you and Dr. Clifton in
22 this area is that you use in your rebuttal testimony a
23 volume-weighted approach to measure statistical significance
24 whereas Dr. Clifton uses an unweighted approach which treats
25 the accuracy or inaccuracy of each datapoint for each weight

1 increment as being equally important regardless of the
2 amount of volume in the particular weight increment?

3 A No, that is not how I would characterize it.

4 Q Why not?

5 A Well, Dr. Clifton, as I understand his testimony,
6 purports to produce an estimate of the standard error of the
7 one ounce and up volume variable costs used by Witness
8 Fronk.

9 His computation, as I point out in my testimony at
10 page 9 and discussed in Footnote 11, simply is measuring the
11 wrong thing.

12 That is, as Dr. Clifton computes that standard
13 error, he is not computing an estimate solely of the
14 variation in the estimate used by Witness Fronk due to IOCS.

15 Rather, what he is doing is computing a measure
16 which basically tells you how much the data vary from ounce
17 increment to ounce increment and I guess to put it one way,
18 if there is some positive relationship between cost and
19 weight for First Class but if hypothetically you could
20 measure that relationship with exact precision Dr. Clifton's
21 analysis would show that there was some sampling variation
22 the way he computes it, even though in the example I have
23 just given you there would be none by construction.

24 That is, he should have -- Dr. Clifton should have
25 gone back to the sampling methodology in IOCS to develop his

1 standard error estimates for the one ounce and up First
2 Class costs. That is what I have done based on Witness
3 Ramage's analysis.

4 Again by confusing the sampling variation due to
5 IOCS with the sampling variation in the costs from ounce
6 increment to ounce increment, what Witness Clifton has done
7 is to dramatically overstate the amount of sampling error in
8 the IOCS estimates used by Witness Fronk.

9 Q Did you review or were you present for the cross
10 examination of Dr. Clifton when he discussed Daniel's
11 presort data?

12 A I was not.

13 Q Did you have an opportunity to review the
14 transcript of that cross examination?

15 A I have not.

16 Q Do you realize that during that cross examination
17 that Dr. Clifton stressed the fact that in his view the
18 problem with Daniel's presort data was not sample size per
19 se but bad data, which in turn was driving his large minimum
20 sample size requirements?

21 A I have not -- I did not listen to via the webcast
22 or review via transcript Witness Clifton's oral testimony.
23 He said what he said and I am -- you would have to show me a
24 particular statement and ask for my agreement with it.

25 Q But that fact, what I just told you he stated,

1 which is that his bigger concern was the bad data than the
2 sample size, that fact was never brought to your attention
3 by any Postal Service counsel or witnesses or anyone else
4 you work for in preparation of your rebuttal testimony?

5 A Well, in the testimony that I had reviewed in
6 general I had seen a number of criticisms of the use of IOCS
7 for this purpose in any capacity.

8 I believe I address it primarily with respect to
9 Dr. Haldi's testimony.

10 I would disagree -- if the point is that Dr.
11 Clifton said that the IOCS data are inappropriate for this
12 purpose and do I agree with Dr. Clifton, I believe that Dr.
13 Clifton has it wrong.

14 Q Do you believe that your relative standard error
15 method, the so-called generalized variance function, is the
16 only analytically sound method for computing standard errors
17 of Daniel's extra ounce data?

18 A I believe that in the section of the testimony on
19 page 9 it said that there are two applicable methods. I am
20 looking at page 9, lines 9 to 11.

21 There is the bootstrap method and the generalized
22 variance function method. Of those, the bootstrap method
23 has a pretty general applicability but is extremely
24 computationally intensive, so as I stated, much as Witness
25 Ramage didn't have time to rerun the IOCS bootstrap, which

1 involves resampling a dataset of hundreds of thousands of
2 observations, among other things, in the timeframe he had
3 allotted, in the timeframe I had to react to Witness
4 Clifton's testimony on the subject of standard errors of
5 IOCS based estimates, I didn't have the time to do it
6 either.

7 The generalized variance function is an
8 alternative method which I would have to say is highly
9 accurate in predicting what the results of the bootstrap
10 would be if it were done.

11 So the answer to your question in summary is there
12 is more than one way to skin that particular cat. Witness
13 Clifton didn't use either of them.

14 Q Can you tell me what principle of statistics would
15 preclude a statistician from taking as a premise that the
16 accuracy of each datapoint within the 10 extra ounce range,
17 as Daniel investigates, is equally important and the
18 conducting of statistical tests of significance around that
19 premise?

20 A Well, I am not sure -- I guess if one takes as the
21 premise that these individual ounce increment points are
22 indeed equally important then the approach to calculating
23 the standard errors of those estimates would be that which
24 Witness Ramage used in response to the ANM interrogatory in
25 which he introduced the generalized variance function

1 approach.

2 Now again, in light of particular First Class rate
3 design which simply applies a flat additional ounce rate to
4 mail weighing more than one ounce, I am not sure that I
5 would accept the premise that each individual datapoint is
6 indeed equally important.

7 Q But again, are you aware of any principle of
8 statistics that would preclude a statistician from taking
9 that premise, that the accuracy of each datapoint within
10 that 10 extra ounce range investigated by Daniel is equally
11 important?

12 A Well, a statistician could take that premise.

13 Q Thank you.

14 A The premise is just questionable.

15 Q Isn't the choice of using a weighted versus an
16 unweighted approach, doesn't that involve some value
17 judgments or subjective considerations, such as whether you
18 believe your raw data is credible?

19 A Well, the -- I don't think that the credibility --
20 well, again, the term "credible" is vague from a statistical
21 standpoint. Really the weighted versus unweighted analysis
22 issue is one that pertains in some context to the efficiency
23 of statistical estimates.

24 I am really not sure what relevance the weighted
25 versus unweighted analysis issue has here.

1 Q When you approach what Daniel came up with in her
2 data, and you're trying to make a statistical analysis of
3 that, whether you use the weighted method, something that
4 weights it by volume, or the manner that Dr. Clifton
5 evaluated it, which was not weighted by volume, isn't that
6 --

7 Making that decision, isn't that partly a
8 subjective decision that had to do with some -- that
9 entails, in part, some of your value judgments as to the
10 accuracy of the underlying raw data?

11 A Well, I think that when you're talking about the
12 variation of data from a sampling system, it's not -- it's
13 an objective --

14 I would say that it is, in fact, an objective
15 matter of what the sample design is, and what the sampling
16 properties of the estimates are, rather than an issue of
17 value judgment.

18 The sample design of IOCS is an objective, not a
19 subjective fact.

20 Q And you don't think you'd find prominent
21 economists that would agree with what Dr. Clifton did?

22 A I think that most --

23 Q What do you think is right? Do you think there
24 would be other prominent economists that would agree with
25 what Dr. Clifton has said here, not that it would be the

1 only way to do it, but that there's some merit to it?

2 A If you put the question to an econometrician, that
3 is, an economist who primarily deals with statistical
4 issues, I believe that the overwhelming majority of them
5 would, indeed, find that Witness Clifton had used an
6 inappropriate technique to measure the error in Witness
7 Fronk's cost data due to IOCS sampling variation.

8 Whether or not you could find somebody to pay to
9 say otherwise, is something I can't speculate about. Or I
10 could speculate about it.

11 Q Take the payment out of it. Volunteers. Put 100
12 prominent economists in a room, honest economists.

13 A I think if you put 100 prominent economists in a
14 room, and ask them how you should go about measuring the
15 variation in an IOCS-based cost estimate due to the sample
16 design, and they would say that you should use a method such
17 as Witness Ramage's that is based on the sample design of
18 the system in question.

19 Q And not any of the 100, no significant number,
20 would support what Dr. Clifton has done?

21 A I do not believe so, no.

22 Q And you stake your reputation in front of this
23 Commission on that opinion?

24 A As I -- as my autobiographical sketch in USPS-T-15
25 states, I have extensive experience producing measures of

1 exactly this thing for a variety of reasonably important
2 purposes, and I will stake that reputation on the
3 calculation approach that is used by Witness Ramage and used
4 by me here and used in the data quality study as the
5 appropriate methodology.

6 Q Is it correct that Witness Daniel tried to develop
7 a linear regression purporting to show a positive
8 relationship between the higher weight increments and costs
9 in the First Class presort area?

10 A At the risk of parsing words, there are graphs in
11 Library Reference 91 that do show trend lines of unit costs,
12 and in that respect, she did.

13 Q And do you recall her coming up in the First Class
14 Mail presort area with an r-squared value of significantly
15 less than one, specifically 0.465?

16 A Those r-squared's aren't the subject of my
17 testimony, but they are what they are.

18 Q Again, subject to check, would it surprise you if
19 she came up with r-squares of .465?

20 A No.

21 Q And that is -- am I correct that the closer you
22 can get to one on that r-square, the more confidence you
23 have in the statistical accuracy?

24 A Not necessarily. I think this was discussed a bit
25 earlier by Witness Prescott.

1 What the r-squared tells you is how good the model
2 that you've fit to the data explains the variation in the
3 data, and that may or may not be a measure of confidence in
4 the overall model or a particular estimate from it. It's
5 one diagnostic statistic, but not the only thing that you
6 would use to evaluate the results of such a regression.

7 Q You would not gain a lot of confidence from that
8 .465 r-squared, though, would you?

9 A It depends on how you define confidence. If the
10 .465 r-squared suggests that that trend line explains about
11 half the variation in the individual ounce increment cost
12 points, it says really nothing beyond that.

13 Q You think it's a good fit, an r-squared value of
14 0.465?

15 A Well, I think that there are certainly models on
16 the record in this proceeding that exhibit a lot better fit.
17 I think that I would tend to interpret that as a possible
18 sign that there are other factors that cause variation in
19 the data than the increase in weight from ounce increment to
20 ounce increment.

21 Q Isn't it that, in fact, why Witness Daniel didn't
22 utilize the linear regression to try to develop a trend
23 line?

24 A Sure. Again, the trend -- as she stated, the
25 trend is a general indication and not -- it's not

1 represented to be a complete rendition of all factors that
2 might affect cost by ounce increment.

3 Q The r-square value that she calculated, am I
4 correct that that is calculated based on variances that
5 don't weight the individual unit costs in each weight cell
6 by volume?

7 A I think it would be correct to say that it's
8 derived from a regression analysis that does not weight the
9 observations in the analysis based on the volume cost or
10 probably the most statistically appropriate, by the standard
11 error of the individual ounce increment estimates.

12 Q Isn't Witness Clifton's method then of measuring
13 statistical significance somewhat analogous to measuring the
14 variation around such a trend line, since neither are
15 weighted by volume?

16 A Again, in a sense, what Witness Clifton is doing
17 is measuring, in a way, the variation around that trend
18 line. What I'm saying in my testimony and what I said
19 earlier in response to another question of yours, is that
20 that variation around that trend line is not identically
21 equal to the sampling variation due to IOCS.

22 And, furthermore, it really has nothing to do at
23 all with the IOCS-based cost estimate used by Witness Fronk.

24 Q A few more questions, Dr. Bozzo: Your method,
25 your -- the acronym is going to escape me -- GVF method of

1 measuring statistical significance does not treat all
2 datapoints on an equal footing; does it?

3 A I don't know what you mean by treats all
4 observations on an equal footing.

5 Q Let me ask it a different way.

6 A Sure.

7 Q Your weighting procedure means that the unit costs
8 of certain individual weight cells are given far more
9 significance than other individual weight cell unit costs;
10 doesn't it?

11 A I don't know what you mean by -- well, I don't
12 know what you mean by that statement.

13 What I'm doing is trying to compute an estimate of
14 the standard error for the aggregate costs over all of the
15 ounce increments from one ounce and above to the 11-plus
16 ounce increment.

17 Q But --

18 A So, it's weighted, as it were, in the sense that
19 the lower ounce increments have tremendously more volume and
20 cost associated with them, so what this calculation
21 represents is the sampling error of the cost estimate used
22 by Witness Fronk.

23 Q And those individual cells whose unit costs, those
24 lower ounce cells whose unit costs you chose to focus on,
25 just happened to have better variances than the ones you

1 chose not to focus on, don't they?

2 A It is the case in most sampling systems that the
3 relative variance of an estimate is going to be inversely
4 proportional to the number of observations that go into that
5 estimate. So, as is well known, ounce increments that have
6 less cost in a sampling system like IOCS are going to be
7 subject to more sampling error.

8 Of course, again, the practical significance of
9 that can be questionable because many of those ounce
10 increments do indeed have very little cost associated with
11 them.

12 Q But it is true then, under your method, if you are
13 staring at what appears to be an illogical, say, \$7.53 cost
14 for the 7th and 8th ounce increment, if that ounce increment
15 doesn't have that much volume, under your method, you can
16 discount it, can't you?

17 A I don't know what you mean by discount. That
18 observation contributes to aggregate cost of mail weighing
19 more than one ounce as it does. Again, it contributes some
20 amount to the aggregate which it just so happens to be a
21 small amount, and that is what it is.

22 MR. HART: I have no further questions. Thank
23 you, Dr. Bozzo.

24 CHAIRMAN GLEIMAN: Mr. Baker, I understand you
25 have no cross-examination for this witness.

1 MR. BAKER: That is still true, yes.

2 CHAIRMAN GLEIMAN: Sorry to wake you.

3 [Laughter.]

4 CHAIRMAN GLEIMAN: But if I have to stay awake,
5 everyone else does, too.

6 Mr. Olson.

7 MR. OLSON: The pattern continues, Mr. Chairman.
8 I do have a few questions.

9 CHAIRMAN GLEIMAN: You have to keep one thing in
10 mind, the next and last witness of the evening is your
11 witness, sir.

12 MR. OLSON: I wanted to give Mr. McKeever the 9:00
13 hour. I will try to be quick.

14 CHAIRMAN GLEIMAN: Take whatever you time you
15 need, sir.

16 CROSS-EXAMINATION

17 BY MR. OLSON:

18 Q Dr. Bozzo, could you turn to page 2 of your
19 testimony, and take a look at footnote 1 with me? And just
20 refresh my recollection, it is true that when you take a
21 look at IOCS tallies, you either have handling mail tallies,
22 or you have not-handling mail tallies, correct?

23 A That is correct as a first cut, and as the
24 footnote --

25 Q Let me just --

1 A Sure.

2 Q I will move along quickly. I don't need a full
3 course. But if you have a handling mail tally, then they
4 are either a direct tally or a mixed mail tally, correct?

5 A That is correct.

6 Q Okay. Now, do you happen to know, of the
7 not-handling mail tallies, well, the percentage of tallies
8 that are not-handling mail tallies?

9 A The not-handling tally percentage is approximately
10 half, perhaps a little more than half.

11 Q Okay. Now, for the tallies that involve handling
12 mail, either direct tallies or mixed mail tallies, do you
13 offhand know the percentage of those tallies which indicate
14 the weight of the mail piece being handled?

15 A I don't know the percentage offhand. The
16 percentage of direct tallies that have weight information is
17 high. As a ballpark guess, 90 percent.

18 Q So 90 percent of the less than 50 percent which
19 are handling mail tallies, that is your testimony, they have
20 weight which is -- the weight of the mail piece is recorded?

21 A Direct tallies are the tallies that have
22 information on subclass, weight, shape and other
23 characteristics of the mail.

24 Q So that would mean, of total IOCS tallies, it
25 might be 43 percent or something that record weight?

1 Something in that ballpark?

2 A Somewhere in that ballpark.

3 Q 90 percent of less than half?

4 A Yes.

5 Q Let me have you look at page 4, starting at line
6 8. You said the mixed mail tallies contain ample
7 information on shape and in some cases class of mail to
8 inform the mixed mail distributions. Do you know the
9 percentage of the mixed mail tallies which use the top piece
10 rule?

11 A Well, if they are a top piece rule tally, they are
12 a direct tally by this classification. Mixed mail tallies
13 are, as described in footnote 1, and as the term is used in
14 the Postal Service's cost distribution analysis, are, by
15 definition, tallies for which top piece information is not
16 available.

17 Q Okay.

18 A Which are not subject to the top piece rule.

19 Q I'm sorry, I misunderstood. So top piece goes
20 under direct tally?

21 A Yes.

22 Q Okay. And do you know the percentage breakdown
23 between direct tally and mixed mail tally?

24 A Again, not offhand, but among handlings, it varies
25 by the type of handling in a nutshell. For certain types of

1 handlings, including handling individual pieces, trays,
2 bundles and anything subject to the top piece rule, it may
3 be 90 percent on up of tallies of those handling types that
4 are direct. When you get to things like handling
5 containers, very few are.

6 Probably the overall might be, of the handling
7 tallies, maybe you have got an 80/20 split. Again, I think
8 there is --

9 Q 80 being direct tallies?

10 A 80 being direct and 20 being mixed.

11 Q 20 mixed. Okay.

12 A But I believe that there are tables provided by
13 Witness Van-Ty-Smith that would be dispositive of the
14 question.

15 Q Right. Right. I am, just for purposes of these
16 questions, trying to get a baseline. For the pieces that do
17 not include weight information, the 10 percent that don't
18 include weight information you discussed a minute ago, and
19 looking at this sentence that I just quote, is there ample
20 information on shape and class to inform the mixed mail
21 distribution of those pieces? In other words, if there is
22 no information on --

23 A The pieces that are direct tallies with no weight?

24 Q Yes.

25 A I would say that of the, if you will, mixed weight

1 tallies, those have the best information because they would
2 identify a subclass and shape. Without going into the
3 technical details, those come through a question where the
4 data collector indicates the subclass breakout approximately
5 in the CRA, and the shape of mail, and there are clearly --
6 that clearly conveys information as to the average weight of
7 those categories.

8 Q Okay. I think you said, though, on page 5 of your
9 testimony, at the top, you said, since the equipment being
10 handled is usually associated with a shape such as a letter
11 or flat tray, and the shape conveys information on weight,
12 there is a reasonable basis for inferring the weight
13 distribution of the mixed mail observations, is that what
14 your --

15 A That is what my testimony says at lines 1 to 4 of
16 page 5.

17 Q And that is consistent with the explanation you
18 were just giving me a second ago?

19 A Well, the statement that you just read me really
20 does not -- is not intended to apply to those direct tallies
21 specifically, although the point is still made, because,
22 again, these direct tallies with no weight information are
23 indeed identifying a specific shape and subclass of the
24 mail.

25 What I am referring to, for instance, are tallies

1 where you have a mixed mail observation of a rolling
2 container, and the tally contains information that tells you
3 that that rolling container, in fact, had letter trays in
4 it. And it is through that information that you would infer
5 that the contents of those letter trays are, in fact,
6 letters.

7 Q Okay. Would it tell you whether they were half
8 ounce letters or 3 ounce letters?

9 A It would not specifically tell you half ounce or 3
10 ounce. It would tell you that they would have a weight
11 profile similar to letters, which, of course, tends to be
12 highly concentrated in the lower ounce increments.

13 Q So then you revert to falling back on averages?

14 A That is the approach to getting the information
15 out of those tallies that is in there.

16 Q Okay. Well, when you say here at the top of page
17 5 that shape conveys information on weight, what information
18 does it being a flat, what does that tell you about weight
19 distribution.

20 A It's my understanding that flat shaped pieces tend
21 to weigh more on average than letter shaped pieces, that
22 variation --

23 Q Okay, well --

24 A -- can vary by cost pool and that information is
25 used in the Postal Service's distribution method.

1 Q Right, but if we are trying to find out what the
2 piece, what weight the piece should be associated with,
3 should it be four ounces, three ounces, 16 ounces, you are
4 saying that you can -- that shape conveys a reasonable basis
5 for inferring weight.

6 I am asking if you have a flat what does that tell
7 you about the weight distribution?

8 A Again, it tells you that the flat shaped piece --
9 well, it tells you two things.

10 The flat shaped piece will tend to have a higher
11 weight on average and a different spread of the weight
12 distribution than, say, a letter shape or a parcel shaped
13 piece.

14 That is the information that is captured in the
15 mixed mail distribution process.

16 Q Okay, but if the weight of the piece is not
17 recorded, knowing that it is a flat is not going to tell you
18 what the weight of the piece is?

19 A It does not tell you the weight of the specific
20 pieces.

21 It lets you infer what the likely distribution of
22 those pieces is.

23 Q Then you have to revert to some type of averages
24 or take a look at what you do know and apply it to what you
25 don't know, correct?

1 A Exactly.

2 Q You don't know. Correct?

3 A Well, again you don't know, but as I stated, the
4 weight, the sort of weight relationship that Dr. Haldi talks
5 about should indeed be reflected in the tallies that you do
6 know about to the effect that there is in fact a weight
7 relationship, so that if, again if you need more handlings,
8 if you need more tray handlings for heavy weight letters
9 than for light weight letters, then the letter tray tallies
10 that you do know something about will reflect that fact.

11 Q Well, let's take a look at page 5, lines 6 and 7,
12 where you continue there and you say, "The Postal Service's
13 mixed mail distribution method ensures that the mixed mail
14 tallies have the same relationship."

15 Do you see that?

16 A Yes.

17 Q Okay. Now by that sentence, do you mean have the
18 same relationship as the direct tallies by weight category
19 for that activity?

20 A That is the antecedent of the same relationship.

21 Q Okay. Now take a look at page 7, lines 10 through
22 14, and there you talk about Witness Daniel's methodology
23 being a significant advance over Witness McGrain's analysis
24 previously precisely because it is the first weight
25 distribution method to recognize the differences in the

1 composition of handlings between direct and mixed mail
2 tallies.

3 So what I am trying to get at is how do you
4 reconcile these two? How do you recognize differences in
5 the composition of handlings between direct and mixed mail
6 tallies if the distribution method ensures that the mixed
7 mail tallies have the same relationship, as you say on page
8 5?

9 A Well, the have -- the same relationship is
10 considered to be a reasonable method precisely because the
11 mixed mail distribution is carried out for the same type of
12 activity, so you are using observations of letter trays that
13 you do know something about to distribute the weight of
14 letter trays that you don't know something about.

15 You are not using, say, information on flat shaped
16 pieces that you observe someplace else in the system to
17 infer the weight of those letter pieces, which would be
18 inappropriate.

19 Q So you consider this a major advance in the Daniel
20 methodology?

21 A Yes.

22 Q To recognize the differences in composition
23 between direct and mixed mail tallies which you tell me
24 means that when you have a mixed mail tally you treat it as
25 though it were a direct mail tally?

1 A No, I am not treating it as if it is a direct mail
2 tally.

3 What we are doing is treating the mixed mail tally
4 as having in all likelihood the same weight distribution as
5 direct mail handlings of the same type, so, say letter tray,
6 flat tray, pallet, rolling container, as the observations we
7 do know something about in the same operation, and again I
8 see this as directly responsive to the type of criticisms
9 that Dr. Haldi levels, which are entirely premised, as I
10 understand it, on the assumption that the Postal Service in
11 fact crosses distributions from activities.

12 Q So if you don't know the answer, you go from
13 something you do know and impute it to that which you don't
14 know?

15 A That is how you use the information that is in the
16 data.

17 Q Okay. Let's take a look then at what you say on
18 page 7 going down to lines 5 and 6.

19 You talk about Witnesses Fronk and Moeller
20 considering only "trends and relationships" -- that's the
21 phrase you use -- "among the data."

22 Can you -- you say the very high sampling
23 variation I guess is less significant because they are
24 considering trends and relationships, correct?

25 A Exactly.

1 Q Okay.

2 Now can you tell me what trends and relationships
3 Witness Moeller considered when he was arriving at his
4 proposed reduction in the pound rate for Standard A regular?

5 A The trend and relationship specifically refers to
6 the distinction between costs for piece rated and pound
7 rated Standard A, as I understand it.

8 Q Trends over a period, are we saying?

9 A By trends I mean the difference in unit costs
10 between the piece rated and pound rated mail, as opposed to
11 looking at specific ounce increments within the piece rated
12 or pound rated mail categories.

13 Q So you are talking about looking at pieces under
14 the break point and pieces over the break point?

15 A I believe that that is the implicit cost coverage
16 calculation Witness Moeller performed, yes.

17 Q And not looking at pieces by weight increment?

18 A Not specifically, as I understand it.

19 Q So you are talking about the trend of the pieces
20 that are over the break point, the trend of the pieces that
21 are below the break point, is that correct?

22 A Well, the average unit cost for pieces above and
23 below the break point specifically.

24 Q Okay. Let's just assume that the pound rate were
25 reduced, as the Postal Service requests.

1 We come to another docket and the Postal Service
2 and Advo say it is still too high, it ought to be reduced,
3 and we have Witness Daniel's study and we have trends and we
4 have relationships.

5 Is there a point at which you would say to the
6 Commission that you think they they need data and
7 information on the weight-cost relationship that is more
8 precise than trends and relationships?

9 A My testimony really doesn't address those kinds of
10 pricing concerns, so you can use, among other things, an
11 implicit cost coverage analysis such as Witness Moeller
12 performed, conceivably a regression analysis ala Witness
13 Prescott's to inform that relationship, or to inform the
14 pricing decision.

15 But what you're talking about involves, among
16 other things, cost and non-cost considerations that I just
17 haven't studied and are beyond the scope of my testimony.

18 Q Okay.

19 Take a look at page 18, line 12.

20 [Pause.]

21 A I have it.

22 Q And this goes to what we were just discussing
23 about the pieces in the aggregate in line 14; do you see
24 that? By, in the aggregate, again, you mean above and below
25 the break point, correct?

1 A That is -- well, the -- I'm referring to two
2 things: In respect to Standard A, it is above and below the
3 break point.

4 Q Okay.

5 If aggregate information of this sort were the
6 only thing needed -- and I think that on line 12 you say she
7 needed only determine -- she needed only determine the cost
8 of the mail, dot, dot, dot, for Standard A piece and pound
9 rates in the aggregate; that's what you say, correct?

10 A That's what I say, and, again, it's applicable to
11 the implicit cost coverage calculations performed by --
12 you're interested in Witness Moeller.

13 Q If all that Witness Daniel need do was make these
14 calculations in the aggregate, why do you think she made so
15 many regressions in her Library Reference 92? Why did she
16 compute so many different regressions?

17 A That would be a question for Witness Daniel.

18 Q Totally unnecessary, in your opinion?

19 A I believe that, given the data that Witnesses
20 Fronk and Moeller employed in their implicit cost coverage
21 analyses, the trend lines that she produced were
22 superfluous.

23 Q Okay, take a look at page 17. You have a table
24 there, No. 5 at the bottom, which relates only to
25 pound-rated ECR.

1 Let me ask you, did you create a similar table for
2 Standard A regular when you were writing your testimony?

3 A Did I create a table? Formatted like this? No.

4 However, the cost data for Standard A regular
5 could be obtained from the material in Library Reference
6 456.

7 Q Okay.

8 Last question: Page 18, line 10 --

9 A I have it.

10 Q And I'm getting back to these multiple regression
11 analyses that Witness Daniel computed.

12 I know you say that they could be viewed as
13 superfluous, but would you at least agree with me that
14 Witness Daniel did not identify any one weight/cost
15 relationship for Standard A regular and one weight/cost
16 relationship for ECR which she stands behind?

17 A I would -- well, with that qualification, again, I
18 believe that Witness Daniel's testimony was that she
19 supplied the material for Witness Fronk's and Moeller's
20 implicit cost coverage calculation, and that's what she
21 stand behind.

22 Q Would you agree that she did not identify any one
23 weight/cost relationship for Standard A regular?

24 A She identified, in general terms, via those trend
25 lines, a number of things that could be interpreted as

1 cost/weight relationships for Standard A, including ones
2 applicable to the entire subclasses.

3 Q Same thing for ECR, correct?

4 A Again, as I understand it, she had a lot of trend
5 lines in Library Reference 92, which include, again,
6 material applicable -- or ones based on cost estimates for
7 ECR and regular as a whole, and for parts thereof.

8 MR. OLSON: Okay, that's all we have. thank you,
9 Mr. Chairman.

10 CHAIRMAN GLEIMAN: Is there any followup?

11 [No response.]

12 CHAIRMAN GLEIMAN: There are no questions from the
13 Bench.

14 That brings us to redirect. Would you like some
15 time, Mr. Alverno?

16 MR. ALVERNO: Yes, please, Mr. Chairman.

17 CHAIRMAN GLEIMAN: Ten minutes?

18 MR. ALVERNO: I think we can go less.

19 CHAIRMAN GLEIMAN: All right, well, we'll give you
20 what time you need.

21 MR. ALVERNO: Five minutes.

22 CHAIRMAN GLEIMAN: We'll hang in the hearing room
23 then.

24 [Recess.]

25 CHAIRMAN GLEIMAN: Mr. Alverno?

1 MR. ALVERNO: Thank you, Mr. Chairman. We have
2 nothing further.

3 CHAIRMAN GLEIMAN: If there is no redirect, that
4 means no recross.

5 Dr. Bozzo, that completes your testimony here
6 today. We appreciate your appearance today and your
7 previous appearances and your contributions to our record.
8 We thank you and you're excused.

9 THE WITNESS: You're welcome.

10 CHAIRMAN GLEIMAN: You can have the rest of the
11 evening off.

12 THE WITNESS: Thank you, Mr. Chairman.

13 [Witness excused.]

14 CHAIRMAN GLEIMAN: Mr. Olson, would you like to
15 call our final witness of the evening? I actually see him
16 already in the room.

17 You're still under oath, Mr. Next Witness who
18 hasn't been introduced yet, so I don't have to swear you in.

19 Proceed when you're ready, counsel.

20 MR. OLSON: I'm tempted to say I just have a few
21 questions, but I think this is direct testimony.

22 CHAIRMAN GLEIMAN: I think if you said you just
23 had a few questions, it probably would be true for you and
24 for the rest of us, too. But what those questions are about
25 is a whole other issue.

1 MR. OLSON: William Olson representing Amazon.com,
2 Inc., and we would like to call to the stand Dr. John Haldi,
3 who, as you said, is under oath.

4 Whereupon,

5 JOHN HALDI,

6 a witness, was called for examination by counsel on behalf
7 of Amazon.com, Inc. and, having been previously duly sworn,
8 was further examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. OLSON:

11 Q Dr. Haldi, I would like to hand you two copies of
12 what is identified as the Rebuttal Testimony of Dr. John
13 Haldi concerning Parcel Post Rates on Behalf of Amazon.com,
14 Inc., labelled AMZ-RT-1, and ask you if this was prepared by
15 you or under your direction and whether you adopt it as your
16 testimony in this docket.

17 A The answer to your questions are yes, it was
18 prepared by me, and yes, I do adopt it as my testimony in
19 this docket. However, I have again one very minor
20 typographical change.

21 On page 13, line 4, same thing as this morning.
22 Change the word "not" to "nor" so that it reads "is neither
23 free nor is it offered at cost."

24 That's the only correction. That has been made in
25 these copies.

1 MR. OLSON: Mr. Chairman, with that, we would move
2 the admission of this testimony into evidence.

3 CHAIRMAN GLEIMAN: Without objection, if you would
4 please provide two copies to the court reporter, I'll direct
5 that the material in question be transcribed into the record
6 and entered into evidence.

7 [Rebuttal Testimony of John Haldi
8 concerning Parcel Post Rates on
9 Behalf of Amazon.com, Inc.,
10 AMZ-RT-1, was received in evidence
11 and transcribed in the record.]

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AMZ-RT-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000)

Docket No. R2000-1

Rebuttal Testimony of

DR. JOHN HALDI

Concerning

PARCEL POST RATES

on Behalf of

AMAZON.COM, INC.

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August 14, 2000

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1

AUTOBIOGRAPHICAL SKETCH

2

For a copy of my autobiographical sketch, see APMU-T-1 in this

3

docket.

4

I. PURPOSE OF TESTIMONY

5

The purpose of this testimony is to rebut certain testimony of

6

United Parcel Service ("UPS") witnesses pertaining to Parcel Post,

7

especially witness David E.M. Sappington (UPS-T-6) and witness Ralph L.

8

Luciani (UPS-T-5).¹

9

II. INTRODUCTION

10

UPS witness Sappington is the rate level witness for UPS. For

11

Parcel Post, he recommends an increase in rates designed to increase

12

revenues by 24.9 percent. See UPS-T-6, p. 39 (revised 6/22/00). Tr.

13

31/15260, l. 5.

14

Witness Luciani is the UPS witness who addresses rate design

15

issues for Parcel Post. He does not, however, offer a complete set of rates

16

for Parcel Post that would implement witness Sappington's recommended

¹ Tr. 31/15219-15267 and Tr. 25/11770-11823, respectively.

1 24.9 percent revenue increase. Instead, he limits his recommendations
2 to the DDU and DSCF rates.

3 The arguments of witness Sappington and Luciani are flawed, for
4 reasons explained below.

5 **III. WITNESS SAPPINGTON'S PROPOSED MARKUP**
6 **FOR PARCEL POST**

7 Witness Sappington bases his recommendation for Parcel Post on
8 arguments in the following categories:

- 9 • Increased total attributable costs
- 10 • Volume and revenue growth
- 11 • Revenue below cost
- 12 • Higher-value services

13 **A. The Increase in Total Attributable Costs Relied on by Witness**
14 **Sappington Is Not a Relevant Consideration When Determining**
15 **Rates for Parcel Post**

16 Witness Sappington's direct testimony, UPS-T-6, recommending
17 dramatically higher Parcel Post rates, refers only to changes in **total**
18 attributable cost for Parcel Post, not changes in **unit** attributable cost.
19 Although witness Sappington discusses changes in the volume of Parcel
20 Post elsewhere in his testimony, he makes no effort to relate changes in
21 total attributable cost to changes in volume.

1 The “illogic” of witness Sappington’s argument to base unit rate
2 increases on increases in total costs can be viewed in bold relief by
3 applying it to any industry characterized by lower unit costs and rapidly
4 expanding volume. For example, the leading producer of microchips is
5 Intel. Over the four-year period 1996-1999,² Intel’s cost of sales
6 increased by 29 percent, from \$9.164 to \$11.836 billion. Application of
7 witness Sappington’s pricing rationale would argue that the substantial
8 increase in Intel’s costs since 1996 necessitates a substantial, perhaps
9 roughly comparable, increase in the price of chips to ensure that
10 revenues exceed costs. However, since the unit cost of producing chips
11 declined over the four-year period, this prescription would make no
12 sense at all. As everyone knows, the price of microchips has declined
13 during the period, in tandem with the declining unit cost of producing
14 chips, to the benefit of both Intel and its customers, and totally contrary
15 to the pricing rationale expounded in witness Sappington’s direct
16 testimony.³

² See Intel’s 1999 Annual Report. A four-year period was selected here to correspond with the four years encompassed by the years 1998 (the Test Year in Docket No. R97-1 and the Base Year for this docket) to 2001.

³ Witness Sappington does acknowledge that it is appropriate to consider unit cost when setting rates. Tr. 31/15293-4. Nevertheless, he somehow considers increases in total attributable costs to be equally relevant. Tr. 31/15510.

1 Percentage changes in **total** attributable cost is not an appropriate
2 basis for determining percentage changes in postal rates. The rate
3 reflects the **unit** price, and it should be evaluated against the **unit**
4 attributable cost, as the Commission has always done in the past.

5 **B. The Volume and Market Share of Parcel Post Are Small**
6 **Compared to UPS, the Dominant Provider of Surface-based**
7 **Parcel Delivery Service**

8 UPS argues generally that the Commission should disregard the
9 Postal Service's Parcel Post volume estimates, made using what the UPS
10 witnesses describe as a "proposed new methodology."⁴ Tr. 31/15354.
11 However, witness Sappington has no problem using the very same
12 proposed new methodology when he thinks it helps his argument. He
13 states that

14 [t]he Postal Service changed its methodology for measuring
15 Parcel Post volume and revenue after the R97-1 rate case.
16 The change provides a substantial increase in measured
17 Parcel Post volume.... However, if the new methodology
18 accurately reflects Parcel Post volume, the much higher
19 volume it reveals should allay any concerns the Commission
20 might have had in R97-1 that a sizeable increase in rates
21 would reduce Parcel Post volumes to unacceptably low levels.
22 [Tr. 31/15266, footnote omitted.]

23 Witness Sappington neglects to point out that should the
24 Commission reject the Postal Service's "proposed new methodology" and

⁴ To the extent that Parcel Post volume data are controversial, UPS argues for the lowest possible estimate. Presumably this is because cost data are independent of volume data, and a lower volume estimate would have the effect of increasing unit cost.

1 accept UPS's recommendation to use what he describes as the
2 "established" methodology (Tr. 31/15355), then his recommended rate
3 increase is totally inappropriate because the higher volumes would not
4 exist. That rate increase would reduce Parcel Post volumes and market
5 share by an unacceptably large amount, to an unacceptably low level.

6 Table 1 below reproduces the Parcel Post volume for 1994-1999 as
7 shown in witness Sappington's Table 7, and it also shows the UPS
8 forecast for Test Year Before and After Rates. The data shown in Table 1
9 are presented on a reasonably consistent basis. Witness Sappington's
10 proposed rate increase of 24.9 percent for Parcel Post would, by UPS'
11 own reckoning, cause a rather dramatic 14.7 percent decline from the
12 before-rates to after-rates volume, and an 8.6 percent decline in the
13 volume projected for 2000. On a percentage basis, the projected decline
14 in volume would be over three times that experienced in 1995, when
15 Parcel Post rates increased by 18 percent. The UPS after-rates volume
16 projection, at 266 million, would be slightly less than the Base Year 1998
17 volume, and only 19 percent above the 1994 volume.

1

2

Table 1

3

UPS-Preferred Parcel Post Volumes

4	5	6	7	8	9	10	11	12	13	14	15
					(1)	(2)					
		Fiscal	Parcel Post	% Change in	Volume	Parcel Post					
		Year	(millions)	Parcel Post	(millions)	Volume					
				Volume							
		1994	224	19.8%							
		1995	218	- 2.7%							
		1996	213	- 2.3%							
		1997	237	11.3%							
		1998	267	12.7%							
		2000	290	8.6%							
		2001BR	311	7.2%							
		2001AR	266	- 8.6%							

16

Sources: 1994-1998, UPS-T-6, p. 41, Table 7.

17

2000, UPS-Luciani-WP-3.2.1, p. 2 (rev. 6/20/00).

18

2001BR, UPS-Luciani-WP-3.2.1, p. 4 (rev. 6/20/00).

19

2001AR, UPS-Luciani-WP-3.3.1, p. 2 (rev. 6/20/00).

20

21

Table 2 compares the UPS-preferred volume data for Parcel Post

22

(shown in Table 1 and reproduced here in column 1) with UPS volume of

23

ground service packages (column 2). For the years 2000-2001, the UPS

24

volume is conservatively assumed equal to 1999 volume, with one

25

exception. For 2001AR, UPS volume is assumed to increase by the same

26

amount that Parcel Post would diminish. The total volume of Parcel Post

27

and UPS Ground Service combined is shown in column 3, and the share

1 of each is shown, respectively, in columns 4 and 5.⁵ From column 4, it
2 readily can be observed that (i) the UPS Ground Service volume is about
3 9 to 10 times greater than the volume of the Parcel Post, and (ii) in 1997-
4 98, the market share of Parcel Post was slightly greater than in 1995-96.
5 Thus, use of the UPS-preferred volume data and rate increases
6 recommended by UPS witnesses would, by their own reckoning, reduce
7 the 2001 After-Rates Parcel Post market share to less than it was in
8 1998. Inasmuch as the increase in e-commerce is projected to cause a
9 significant increase in the total market for parcel delivery, the already
10 small market share of Parcel Post likely would decline even further under
11 the UPS rate proposal.

⁵ Other firms also compete in the non-expedited surface-based parcel delivery business; see USPS-T-6, pp. 156-158.

1

2

Table 2

3

UPS-Preferred Parcel Post Volume and UPS Ground Service Compared

4

1994-2001

5

(millions)

6	7	8	9	10	11	12	13	14	15	16	17	18
		(1)	(2)	(3)	(4)	(5)						
	Year	Parcel Post	UPS Ground Service	Total	Parcel Post Share	UPS Ground Share						
	1994	224	n.a.	n.a.	n.a.	n.a.						
	1995	218	2,517	2,735	8.0%	92.0%						
	1996	213	2,544	2,757	7.7%	92.3%						
	1997	237	2,409	2,646	9.0%	91.0%						
	1998	267	2,450	2,717	9.8%	90.2%						
	1999		2,544	n.a.	n.a.	n.a.						
	2000	290	2,544	2,834	10.2%	89.8%						
	2001BR	311	2,544	2,855	10.9%	89.1%						
	2001AR	266	2,590	2,856	9.3%	90.7%						

19

Sources: Parcel Post: See Table 1

20

UPS Ground: 1995-1999, Response to PSA/UPS-8, Tr. ___/___.

21

2000 and 2001BR, assumed equal to 1999.

22

2001AR, assumed equal to (i) 2001BR plus

23

(ii) the difference between Parcel Post

24

Before Rates and Parcel Post After Rates volumes.

25

26

C. Parcel Post Revenues Will Exceed Attributable Costs

27

Witness Sappington relies on the Postal Service's CRA Reports for

28

his statement that "with only two exceptions, Parcel Post revenues have

29

fallen short of attributable costs in every year between FY 1989 and FY

30

1997." Tr. 31/15264, footnote omitted. Witness Sappington relies

31

wholly on unrevised Postal Post volume data, and does not use witness

32

Tolley's restated volume data (which start in 1993). He further

1 acknowledges that the Postal Service's CRA on which he relies does not
2 reflect the Alaska air adjustment to attributable cost, which the
3 Commission customarily makes. Tr. 31/15537-40. Consequently, he
4 does not know whether Parcel Post revenues have in fact covered
5 attributable cost during any or all of those years. Tr. 31/15541.

6 In assessing whether Parcel Post's attributable costs will possibly
7 exceed revenues, the growth in destination entry is an important
8 consideration. Destination entry did not begin until 1991. By 1997, it
9 had reached 63.4 percent of total Parcel Post volume,⁶ and destination
10 entry is projected to grow to 80.2 percent by 2001.⁷ From 1999 onward,
11 destination entry will include DSCF and DDU entry, as well as entry at
12 DBMCs. With DDU entered parcels, internal handling is minimized, with
13 delivery constituting most of the cost. Delivery costs tend to be more
14 stable than mail processing costs, hence more predictable.⁸ Thus,

⁶ USPS-T-6, p. 154.

⁷ TYAR; TYBR percentage is 78.7 percent. USPS-T-6, p. 6.

⁸ The Postal Service has admittedly found it difficult to reduce and control mail processing costs for parcels; see Motion Requesting That the Postal Service be Directed to Submit Evidence on Parcel Processing Costs, filed April 4, 2000 by District Photo, Inc., Mystic Color Lab and Cox Sampling. The focus on automation of First-Class Mail has seemingly had two effects, both perverse as far as Parcel Post is concerned. First, it made improved mechanization and automation of parcel handling equipment a low priority in the capital investment budget; second, successful automation of First-Class Mail, instead of reducing total employment, seemingly has increased costs for other subclasses that were not automated. See TW-T-1, p. 4, Tr. 24/11351.

1 bypassing the postal network helps not only to reduce costs, but also to
2 control costs better.

3 **D. Contrary to Witness Sappington's Assertions, the Value of**
4 **Parcel Post Service Has Not Increased**

5 Witness Sappington argues that

6 the Destination Delivery Unit ("DDU") and Destination
7 Sectional Center Facility ("DSCF") discounts introduced in
8 R97-1 have enabled Parcel Post to become an integral
9 component of even more expedited parcel services. To
10 illustrate, the Airborne@Home service provided by Airborne
11 Express delivers parcels to the DDU and obtains next-day
12 delivery by the Postal Service with great regularity....
13 [footnote omitted.] Arrangements of this sort make DDU
14 Parcel Post an integral component of a service that provides
15 high value to both the senders and the recipients of parcels.
16 [UPS-T-6, p. 44, ll. 10-15, Tr. 31/15265.]

17 Witness Sappington's argument contains several flaws. First, the
18 DDU and DSCF rates are used by (i) parcel shippers who enter mail
19 themselves, (ii) ground consolidators who gather mail from various
20 shippers, transport it via surface transportation to DSCFs and DDUs,
21 and enter it there in order to obtain the benefit of the lower rate, and
22 (iii) air consolidators such as Airborne. When a consolidator enters
23 parcels at DDU or DSCF rates, these components of the Parcel Post rate
24 structure can be viewed as part of the cost of end-to-end delivery service.
25 The value of the end-to-end service is the sum of its two component
26 parts: *i.e.*, (i) pickup, processing and transportation to the DSCF or DDU
27 by the consolidator, and (ii) delivery to the final customer by the Postal

1 Service. The usage and rates for DSCF and DDU entry should be viewed
2 in context, not through the myopic lens used by witness Sappington. In
3 other words, these rates should be viewed as components of the end-to-
4 end rates charged not only by air-based consolidators, but also by
5 ground consolidators, who must compete with other ground services
6 such as those provided by UPS. Air-based consolidators, such as
7 Airborne, probably represent a small portion of the total usage of DSCF
8 and DDU rates. Ground-based trucking consolidators, the major users,
9 are in a competitive, low-value business.

10 Furthermore, the fact that an air consolidator, such as Airborne,
11 undertakes the risk and considerable added expense of expediting
12 packages from shippers to the DSCF or the DDU does not add some kind
13 of special differential value to the final delivery portion. The use of air
14 transportation does make Airborne@Home a comparatively high-cost,
15 high-priced product. That alone, however, does not make the end-to-end
16 Airborne@Home service a successful product with high value to many
17 users. Witness Sappington's mere assertion that it is a high-value
18 product is not sufficient. He implies that the Postal Service receives too
19 small a share of the total end-to-end price charged to shippers of DSCF
20 and DDU entry parcels. However, he presents no evidence on the price
21 charged by Airborne, the volume (and growth in volume) of packages
22 using the Airborne@Home service, or the profitability of the

1 Airborne@Home service. Witness Sappington offers no evidence that the
2 end-to-end product offered by the Airborne-USPS combination is so
3 successful or so profitable as to warrant an excessive increase in the rate
4 for the Postal Service's portion of the service, which necessarily would
5 apply to all DSCF and DDU entered parcels.

6 For his assertion that parcels receive next-day delivery from the
7 DDU 97 percent of the time, the only "evidence" cited by witness
8 Sappington is "anecdotal customer feedback" from an interrogatory
9 response by Postal Service witness Kingsley. Tr. 31/15265 (fn. 58, citing
10 Tr. 5/1912). Such anecdotal feedback can be completely misleading.
11 Even if it may be marginally better than no information whatsoever, it
12 does not constitute a sufficient basis for determining value of service or
13 establishing rates, most especially large rate increases designed to
14 penalize Parcel Post users. Moreover, witness Sappington cites no
15 evidence, nor does he even suggest, that parcels, once they have reached
16 the DDU, receive any better delivery than in prior years; *i.e.*, no evidence
17 suggests any improvement since Docket No. R97-1 (or any other prior
18 docket) with respect to either (i) performance in the delivery of parcels
19 from the DDU, or (ii) the value of service given to parcels at the DDU.

20 Witness Sappington also notes that "[a]s of March 14, 1999, Parcel
21 Post shippers have the option of purchasing Delivery Confirmation for
22 their shipments. This new feature further increases the value of service

1 that Parcel Post now delivers to its users.”⁹ Witness Sappington fails to
2 mention that none of the costs of Delivery Confirmation are included in
3 the attributable costs of Parcel Post. Importantly, Delivery Confirmation
4 for Parcel Post is neither free, nor^r is it offered “at cost” (i.e., without a
5 markup). Delivery Confirmation, which is entirely optional for Parcel
6 Post, is separately and fully priced, with its own implicit cost coverages
7 (122 percent for manual, and 147 percent for electronic), which are
8 higher than the coverage for Parcel Post.¹⁰ Those mailers who use
9 Delivery Confirmation receive additional value **in exchange for an**
10 **additional payment that captures attributable cost plus the implicit**
11 **coverage.** For those mailers who elect not to use Delivery Confirmation
12 service, any value which they may perceive from availability of the option
13 clearly is less than the rate charged, and to many the option perhaps has
14 zero value; i.e., they would have no use for Delivery Confirmation even if
15 it were free (included in the base rate). Witness Sappington’s analysis of
16 Delivery Confirmation is an attempt to manufacture additional value for
17 Parcel Post where there is none. To make the argument completely
18 circular, the only thing missing is an assertion that the rate for Delivery
19 Confirmation should be increased because the value of Parcel Post has
20 gone up.

⁹ UPS-T-6, p. 45, ll. 3-5, Tr. 31/15266.

¹⁰ USPS-T-39, p. 54, ll. 10-12.

1 Finally, witness Sappington notes that “[c]ustomer behavior is
2 another indirect measure of service value. If customers repeatedly
3 choose a more expensive mail service when a less expensive service is
4 available, their choice provides strong evidence that they value the more
5 expensive service more highly.” Tr. 31/15254. As shown in Table 2,
6 *supra*, Parcel Post has had about one-tenth the combined volume of
7 Parcel Post and UPS Ground Service. Since other competitors also have
8 a share of the market for non-expedited surface delivery of parcels,
9 Parcel Post’s share of the total surface delivery market is somewhat less
10 than 10 percent. This means that over 90 percent of all shippers who
11 use non-expedited surface transportation for their packages value the
12 delivery service offered by competing firms more highly than Parcel Post.
13 For these reasons, one can only conclude that Parcel Post has a relatively
14 low value of service that, in the view of shippers, is considered to be low
15 when compared to competing products.

16 **E. Critical Information Normally Available in Competitive**
17 **Markets Is Withheld and Suppressed by Competitors, Dictating**
18 **a Conservative Approach to Rate Increases for Parcel Post**

19 When discussing Parcel Post’s value of service, witness Sappington
20 endeavors to show that the value of service has gone up, thereby
21 justifying his proposed 24.9 percent increase in rates. Witness
22 Sappington admits, however, that “[c]hanges in the qualities of

1 competitors' services can affect the incremental value of service."¹¹
2 Improvements in the quality of service provided by competitors,
3 especially by the dominant provider, is thus a critical factor in
4 determining Parcel Post's incremental value of service. At the same time,
5 UPS's own witnesses, including witness Sappington, neither know nor
6 can they provide any information concerning UPS delivery performance.¹²

7 In a similar vein, the Commission's information concerning rates
8 and other terms contained in negotiated contracts between UPS and its
9 customers is highly imperfect.¹³ Not only does the Commission have no
10 information on the actual rates being paid for the bulk of transactions in
11 the parcel market, it lacks information on other critical terms as well,
12 such as the extent to which the rates paid depend on guaranteed
13 volumes, other non-price considerations such as free software or free
14 logistics consulting, exclusive dealing requirements, and blended rates or
15 tie-in arrangements with respect to other product offerings such as
16 Overnight, or Two to Three day service, etc. UPS willingly provides its
17 published rates as a library reference, without qualification as to the

¹¹ Response to PSA/UPS-T6-19, Tr. 31/15393.

¹² Responses to AMZ/UPS-T6-15(b), PSA/UPS-T6-6, and PSA/UPS-T6-19(b). Tr. 31/15301-2, 15351, and Tr. ___/___, respectively.

¹³ See PSA-T-1, p. 11, ll. 5-8, Tr. 29/14133.

1 percentage of shipments that actually pays those rates, knowing that
2 those rates could mislead the Commission.

3 Witness Sappington notes that the Commission is never fortunate
4 enough to have perfect information about a number of factors, and
5 therefore the Commission must make do with whatever imperfect
6 information it has at its disposal. PSA/UPS-T6-20, Tr. ___/____. In
7 this, he is correct. He also states:

8 suppose Parcel Post's contribution to institutional costs
9 would decline if rates were increased above the level at which
10 they generate revenues that cover attributable costs and a
11 reasonable share of institutional costs based on a balanced
12 consideration of all of the criteria in 39 U.S.C. § 3622(b). In
13 this situation, I would not recommend that the Commission
14 raise Parcel Post rates above this level, and thereby diminish
15 Parcel Post's contribution to institutional costs. [Tr.
16 31/15280-1.]

17 By this counsel, the Commission must be careful not to raise Parcel Post
18 rates above the level which would cause the total contribution to
19 institutional costs to decline, and it must do so in the face of highly
20 imperfect information.

21 I would suggest that the Commission, in its deliberations
22 concerning Parcel Post rates, should give weight to the fact that imperfect
23 information and lack of record evidence with respect to competitors'
24 prices and their quality of service is no "accident" of the marketplace, but
25 rather the deliberate result of a conscious corporate policy by UPS and
26 others to suppress and withhold such information, not only from the

1 Commission, but also from their own customers. The market for Parcel
2 Post is highly competitive, the own-price elasticity of demand for Parcel
3 Post is among the highest of any subclass, and the Postal Service has
4 been reduced to a minor participant in the market for non-expedited
5 surface-transported parcels. Given the uncertainty caused by the lack of
6 information, and in light of UPS's dominant position, coupled with the
7 Postal Service's tenuous position, my advice to the Commission would be
8 to err on the conservative side with respect to any rate increases so as
9 not to damage Parcel Post's fragile market position.

10 **IV. WITNESS LUCIANI'S DDU AND DSCF RATE PROPOSALS**
11 **FOR PARCEL POST**

12
13 Witness Luciani's testimony deals with Parcel Post costs,
14 suggesting a proposed methodology for translating costs into rates and,
15 offering a rate proposal for DDU and DSCF entry. As indicated below,
16 these UPS proposals are seriously flawed.

17 **A. Witness Luciani's Proposal to Distribute City Carrier Elemental**
18 **Load Costs by Weight Is Flawed**

19 In an effort to increase the unit cost of Parcel Post, witness Luciani
20 latches on to one aspect of the testimony on the weight-cost relationship
21 of First-Class Mail, Periodicals and Standard A Mail by Postal Service

1 witness Sharon Daniel (USPS-T-28).¹⁴ Witness Daniel, in turn, in an
2 effort to respond to one particular criticism of a similar, prior study,
3 elected, based on an **unsupported assumption**, to distribute elemental
4 load costs for First-Class Mail, Periodicals, and Standard A Mail on the
5 basis of weight rather than pieces.

6 Witness Daniel had no study, no empirical data, nor any other
7 evidence to support her new **assumption** concerning the way she elected
8 to treat elemental load costs for First-Class Mail, Periodicals and
9 Standard A Mail. Moreover, neither Postal Service witness Karen
10 Meehan (USPS-T-11), when actually distributing elemental load costs for
11 the Base Year, nor any other Postal Service witness, adopted witness
12 Daniel's **assumption** with respect to elemental load costs. And contrary
13 to witness Luciani's assertion, Tr. 25/11939, at **no** point in her
14 testimony does witness Daniel **recommend** that the Postal Service or the
15 Commission change the way elemental load costs for First-Class Mail,
16 Periodicals, or Standard A Mail be distributed in the CRA. Tr. 25/11939.

17 It should be further noted that witness Daniel did not study the
18 weight-cost relationship for any Standard B Mail. **Standard B was**
19 **totally beyond the scope of her study**. Obviously, therefore, witness
20 Daniel made **no recommendation** with respect to the way elemental load

¹⁴ USPS-T-28 and the references therein.

1 costs should be distributed to Parcel Post, or to any other subclass
2 within Standard B.

3 Witness Luciani relies totally on the testimony of witness Daniel.
4 Tr. 25/11944-45. He has not done any study regarding the effect of
5 weight on cost in the delivery business, nor does he have any new,
6 independent evidence to offer on the issue. Tr. 25/11941-42. When
7 asked whether 2 cents per pound is an adequate amount to capture the
8 effect of weight on non-transportation cost (*e.g.*, delivery cost, including
9 elemental load cost), he answered "I have not examined this issue." Tr.
10 25/11855. And, when witness Luciani was asked whether he considered
11 any of witness Daniel's analyses to have accurately captured the effect of
12 weight on cost for any of the three subclasses discussed in her
13 testimony, he demurred. Tr. 25/11854. While declining to endorse any
14 of her findings with respect to the weight-cost relationship for any of the
15 subclasses which she did examine, witness Luciani whole-heartedly
16 endorses the adoption of her **assumption** concerning elemental load
17 costs for Parcel Post, which she did not examine. Tr. 25/11943.

18 Despite the fact that witness Luciani has no evidence of his own to
19 offer on the weight-cost relationship of Parcel Post (or any other subclass
20 within Standard B), he has no hesitancy to mischaracterize witness
21 Daniel's unsupported **assumption** as a "recommendation," then
22 extrapolate that assumption to Parcel Post (and, presumably, to the

1 other subclasses of Standard B) and, finally, proceed to recommend it for
2 the Commission's own adoption. Neither witness Luciani's testimony,
3 nor any other part of the record, contains any evidence that would
4 support a change in the way elemental load costs are distributed.

5 **B. Witness Luciani's Bottom-up Costs Significantly Exceed CRA**
6 **Costs**

7 As part of his effort to increase the unit cost of DDU entered Parcel
8 Post, witness Luciani states that:

9 [f]inally, I have conducted a bottom-up costing of parcel
10 delivery costs. Combining the cost from the Engineered
11 Standards study for loading and access costs with the
12 volume variable costs for route time and in-office costs and
13 adding the cost of the manual sort to carrier route conducted
14 by a clerk/mailhandler at the DDU yields a total cost of
15 \$1.14 per piece in comparison to the \$0.96 per piece noted
16 above that was derived using Mr. Plunkett's analysis. [Tr.
17 25/11806]

18 His analysis, derived in his Exhibit UPS-T-5I, is filed under seal.
19 Parcels entered at the DDU have no upstream mail processing or
20 transportation costs. Most of the costs in that exhibit consist of city and
21 rural carrier delivery costs. As a cross-check on witness Luciani's results
22 derived from the Engineering Standards study to which he refers, I have
23 conducted my own bottom-up costing analysis using CRA costs, rolled
24 forward on the basis of both FY 1998 and FY 1999 as the Base Year.

25 The results, presented in the Appendix hereto, reflect eight
26 different unit costs for delivery (see Table A-1, Section H). The different

1 unit costs result from the fact that my analysis uses the (i) Test Year
2 After Rates Costs rolled forward from both 1998 and 1999, as the base
3 years, along with (ii) both the Postal Service and the PRC cost
4 methodology, and (iii) the TYAR volumes proposed by UPS and the Postal
5 Service.

6 By way of summary, the CRA-based unit delivery costs range from
7 a low of \$0.39 to a high of \$0.60. Even if another 10 to 15 cents per
8 piece is allowed for handling within the DDU, **all** estimates are well
9 below Postal Service witness Michael K. Plunkett's (USPS-T-36) \$0.96 per
10 piece top-down estimate cited by witness Luciani, regardless of which set
11 of assumptions is used. Clearly, something is wrong with witness
12 Luciani's analysis. Additionally, witness Luciani did not attempt to
13 reconcile his analysis with the readily available CRA data, as I have done.
14 In any event, his bottom-up cost study is seriously flawed and I would
15 recommend that the Commission not rely on the results of that analysis.

16 **C. Witness Luciani's Proposed Methodology for Determining DDU**
17 **and DSCF Passthroughs for Parcel Post Is Flawed**

18 UPS witness Luciani, in his direct testimony, proposes to reduce
19 the passthrough for DDU and DSCF worksharing cost avoidances for
20 Parcel Post. Tr. 25/11804-11807. He determines the amount of his
21 reduced passthrough by first determining an explicit markup, which he
22 prefers to describe as an implicit markup.

1 Priority Mail is proposed to contribute approximately
2 63 cents to institutional costs on every underlying dollar of
3 attributed cost. A 63% markup on the attributed cost of
4 DDU-entry pieces is also appropriate. [Tr. 25/11805.]

5 Having determined what he thinks the markup ought to be, and
6 what he thinks ought to be the rate for DDU entry Parcel Post, witness
7 Luciani then backs into calculating the passthrough of avoided costs
8 necessary to reach his desired markup and rate. When questioned about
9 the use of markups to determine rates for an individual rate category
10 within a subclass, instead of explicitly determined passthroughs, witness
11 Luciani stated:

12 [a]s a general matter I don't think implicit markups are
13 necessarily the way that one would assign passthroughs in
14 general. However, for DDU Parcel Post, where we have
15 Priority Mail and DDU Parcel Post entry getting a comparable
16 level of service once they reach the DDU I think it is
17 appropriate here. [Tr. 25/11931].

18 Within the Parcel Post subclass, witness Luciani would arrive at
19 rates for some workshared rate categories in the usual way (*i.e.*, through
20 worksharing discounts computed as a percent of costs avoided, and
21 where the percentage is determined without any reference to markups),
22 while explicitly using implicit markups as the basis for determining the
23 discounts (and rates) in other workshared categories.

24 In Docket No. R97-1, I calculated bottom-up costs for every rate
25 category in Standard A ECR, and recommended that the Commission
26 apply an appropriate markup to those bottom-up costs in order to arrive

1 at recommended rates.¹⁵ It was my recommendation that a uniform
2 markup be applied to the bottom-up costs for all rate categories within
3 standard ECR, unless the Commission could find reasons that justified
4 differential markups. Nevertheless, the Commission opted not to rely on
5 my approach; see Docket No. R97-1, *Op. & Rec. Dec.*, ¶15374.

6 It was my conviction then, and it remains so, that the Postal
7 Service and the Commission would be better served by developing and
8 using bottom-up costs as the basis for setting cost-based rates,
9 especially for products where the Postal Service faces strong competition,
10 as it does in Parcel Post. At no time, however, have I ever advocated
11 mixing the top-down and bottom-up approaches to rate-setting, as
12 witness Luciani would have the Commission do in order to achieve his
13 narrowly focused goal of higher rates for DDU and DSCF entry Parcel
14 Post. I can see nothing but problems in using such a mixed and
15 inconsistent approach for dealing with individual rate categories within a
16 subclass. It almost surely will open a Pandora's box.

17 One problem with witness Luciani's approach is his restricted
18 comparison of Parcel Post packages at the DDU with Priority Mail
19 packages at the DDU. He bases his markup on the unsupported
20 assertion that once parcels reach the DDU, 97 percent receive delivery

¹⁵ See Docket No. R97-1, VP/CW-T-1, Tr. 27/15038-165.

1 the next time carriers go on their rounds. Even if his assertion is
2 assumed to be true, and ignoring the fact that it is based only on
3 anecdotal information with no supporting quantitative performance
4 data, this means that Parcel Post packages, once they reach the DDU,
5 receive the same treatment as Priority Mail packages, regardless of where
6 in the system they are entered. In other words, he bases his markup on
7 the assertion that from the DDU to the addressee there is no meaningful
8 "priority" in Priority Mail. By witness Luciani's logic, an alternative
9 solution would be for the implicit markup on the delivery costs of Priority
10 Mail to be reduced to bring it into line with the lower markup on Parcel
11 Post.

12 Another serious problem I perceive with his mixed approach is the
13 precedent it would set for other postal products that also have DDU
14 entry. Currently, these include Periodicals, the two Standard A ECR
15 subclasses, and Bound Printed Matter (proposed). For each such
16 subclass, is the Commission now supposed to analyze performance data
17 from the DDU to addressee? Let us assume that it can be established on
18 the record that any (or all) of these subclasses, when entered at the DDU,
19 receive essentially the same handling and delivery as First-Class or
20 Priority Mail. If witness Luciani's new policy were to be adopted by the
21 Commission, it would then be required to use the markup on First-Class
22 or Priority Mail expressly to establish an implicit markup for the DDU

1 entry rates for these other subclasses, while using the top-down
2 approach for other rate categories within each subclass.

3 Still another problem is that witness Luciani bases his implicit
4 markup on only one of the non-cost criteria in Section 3622(b) of the
5 Postal Reorganization Act, value of service. It would appear that witness
6 Luciani realizes that using markups based on the non-cost criteria
7 contained in Section 3622(b) is a slippery slope. He attempts to “justify”
8 his truncated approach by stating that “because it’s a passthrough, I did
9 not apply the ratemaking criteria. I note the value of service seems very
10 similar.” Tr. 25/11936. If the Commission systematically applies
11 implicit markups — or coverages, since markups translate directly into
12 coverages — explicitly to some rate categories, it will necessarily have to
13 consider whether some (or all) of the other non-cost criteria in Section
14 3622(b) are also applicable. I would suggest that applying markups
15 selectively to some but not all rate categories, and then selectively
16 applying some but not all of the non-cost criteria in Section 3622(b) to
17 those rate categories, will lead to confusion and irrational rates.

18 **D. The Commission Should Reject Witness Luciani’s Proposed**
19 **DDU and DSCF Rates for Parcel Post**

20 Witness Luciani is UPS’s rate design witness for Parcel Post. He
21 limits his specific proposals, however, to markups and rates for DDU and
22 DSCF entry. As explained in the preceding sections, his

1 recommendations are based on cost analyses and a proposed
2 methodology that are both flawed.

3 I would urge the Commission to accept the Postal Service
4 proposals advanced by witness Plunkett in this case. In particular, I
5 would urge the Commission to accede to the Postal Service's
6 recommendation to leave the rates for DDU and DSCF entry unchanged
7 until more experience has been gained from these rates. They have been
8 in effect only since January 1999, and the FY 1999 billing determinants
9 indicate that the volume of DSCF and DDU entered parcels were only 0.5
10 and 4.0 percent of all parcels. See USPS-LR-I-259, § H-1.

APPENDIX**BOTTOM-UP COSTS FOR PARCELS ENTERED AT DDUs****Overview**

DDU entered parcels have essentially two cost components: (i) the cost of delivery, plus (ii) one handling within the DDU. The unit delivery costs for all Standard B Parcel Post in the Test Year, using CRA roll-forward costs, is developed in Table A-1. To this unit cost one needs to add approximately 10 to 15 cents for handling in the DDU by a clerk or mailhandler. The resulting "bottom-up" cost can be compared with (i) the bottom-up cost estimate developed by UPS witness Luciani using the Engineering Study data (\$1.14), and (ii) witness Plunkett's top-down cost estimate (\$0.96).

Table A-1

Section A shows the Test Year After Rates (TYAR) costs for city and rural carriers using Postal Service cost methodology. Column 1 shows TYAR costs rolled forward from the 1998 Base Year; costs in column 2 are rolled forward using 1999 as the Base Year. The city carrier data include both in-office costs (segment 6) plus out-of-office costs (segment 7).

Section B is similar to Section A, using PRC attributable costs.

1 Section C shows projected volumes using (i) UPS-preferred old
2 methodology, and (ii) the Postal Service's improved methodology for
3 determining the volume of parcel post.

4 Section D shows unit delivery costs computed by dividing the total
5 costs in Sections A and B by the volumes in Section C.

6 Section E shows the piggyback factors for city and rural carriers.
7 These are the same piggyback factors as used by witness Luciani to
8 develop his bottom-up costs.

9 Section F shows unit costs computed with the piggyback factors
10 shown in Section E.

11 Section G shows the number of city and rural routes in A/P 9, FY
12 2000. The percentage of each type of route, used to weight the unit costs
13 developed in Section F, is shown in column 2.

14 Section H shows the 8 final, weighted unit delivery costs (city and
15 rural carriers combined) that result from using UPS and Postal Service
16 volume estimates and PRC and Postal Service cost methodology. The
17 unit cost for delivery (excluding \$0.10 to \$0.15 for handling within the
18 DDU) ranges from a low of \$0.39 per piece to a high of \$0.60 per piece.

		(1) TYAR (1998BY)	(2) TYAR (1999BY)
1	Table A-1		
2	Development of Test Year After Rates Bottom-up		
3	Delivery Cost for Parcel Post		
4		(1)	(2)
5		TYAR	TYAR
6		(1998BY)	(1999BY)
7	A. USPS Costs (000)		
8	[1] City Carriers	91,720	92,235
9	[2] Rural Carriers	<u>15,295</u>	<u>19,685</u>
10	[3] Total	107,015	111,920
11	B. PRC Costs (000)		
12	[4] City Carriers	94,884	95,827
13	[5] Rural Carriers	<u>15,295</u>	<u>19,685</u>
14	[6] Total	110,179	115,512
15	C. Volume (000)		
16	[7] UPS old preferred method	265,062	
17	[8] USPS method	374,096	
18	D. Unit Cost for Delivery (cents)		
19	[9] USPS Cost - UPS old pfd method	40.4	42.2
20	[10] - USPS method	28.6	29.9
21	[11] PRC Cost - UPS old pfd method	41.6	43.6
22	[12] - USPS method	29.5	30.9
23	E. Piggyback Factors		
24	[13] City Carriers	1.429	1.429
25	[14] Rural Carriers	1.242	1.242

1	Sources:	
2	[1] & [2]	TYAR (1998BY), USPS-14K.
3		TYAR (1999BY), USPS-ST44V.
4	[3]	Sum of [1] + [2].
5	[4] & [5]	TYAR (1998BY), USPS-LR-I-131.
6		TYAR (1999BY), USPS-LR-I-424.
7	[6]	Sum of [4] + [5].
8	[7]	UPS-Luciani-WP-3.3.1 (revised 6/20/00)
9	[8]	USPS-T-6, Table 1, p. 6.
10	[9]	[3]/[7]
11	[10]	[3]/[8]
12	[11]	[6]/[7]
13	[12]	[6]/[8]
14	[13] & [14]	USPS-T-21 (Smith), Attachment 11, for Parcel Post.
15	[15]	[9]*[13]
16	[16]	[10]*[13]
17	[17]	[9]*[14]
18	[18]	[10]*[14]
19	[19]	[11]*[13]
20	[20]	[12]*[13]
21	[21]	[11]*[14]
22	[22]	[12]*[14]
23	[23] & [24]	Financial & Operating Statements, A/P 9, PFY 2000.
24	[25]	[15]*[23:Wt]+[17]*[24:Wt]
25	[26]	[16]*[23:Wt]+[18]*[24:Wt]
26	[27]	[19]*[23:Wt]+[21]*[24:Wt]
27	[28]	[20]*[23:Wt]+[22]*[24:Wt]

1 CHAIRMAN GLEIMAN: One party has requested oral
2 cross examination, the United Parcel Service, and it looks
3 like nobody else had staying power, so there can't -- well,
4 the Postal Service is hanging in there. But is there anyone
5 else around who would like to cross examine? The OCA, of
6 course. We can always count on the OCA, and the Postal
7 Service and UPS and Mr. Olson.

8 Mr. McKeever, it looks like you're flying solo on
9 this one, so you can start whenever you'd like.

10 MR. MCKEEVER: Thank you, Mr. Chairman.

11 CROSS EXAMINATION

12 BY MR. MCKEEVER:

13 Q Dr. Haldi, Ms. Daniel leaves and everybody else
14 leaves. We spent a lot of time talking about her testimony
15 in this case, I guess.

16 A I guess so.

17 Q Could you refer to page 2 of your testimony,
18 please?

19 A Yes, I have it.

20 Q Now there at lines 20 to 21, you criticize Dr.
21 Sappington for making no effort to relate changes in total
22 attributable costs to changes in volume, and you conclude
23 that section of your testimony on page 4 at lines 1 to 4
24 where you say: Percentage changes in total attributable
25 cost is not an appropriate basis for determining percentage

1 changes in postal rates. The rate reflects the unit price
2 and it should be evaluated against the unit attributable
3 cost as the Commission has always done in the past.

4 Is that right?

5 A That's correct, yes.

6 Q Now, you are aware, aren't you, that Dr.
7 Sappington testified in response to Amazon.com interrogatory
8 AMZ-UPS-T6-11D that he did examine changes in parcel post
9 unit attributable costs when formulating his rate
10 recommendation; is that correct?

11 A I believe I recall that response, yes.

12 Q And he also testified in that response that parcel
13 post unit attributable cost had increased by 14.5 percent
14 since R97-1. Do you want that again?

15 A Please.

16 Q Okay. And he also testified in that response that
17 parcel post unit attributable costs had increased by 14.5
18 percent since R97.

19 A I don't have his response in front of me, but
20 subject to check, I'll accept that, yes.

21 Q Okay. Now, on page 4 of your testimony, again a
22 little bit lower on the page, you criticize Dr. Sappington
23 for stating that if the Postal Service's new volume estimate
24 for parcel post is correct, then that volume should allay
25 Commission concerns about a sizeable rate increase for

1 parcel post.

2 A Well, I cite his testimony, yes.

3 Q Now, in his chart of parcel post volumes, in his
4 testimony, Dr. Sappington did present both the domestic
5 RPW-only estimate of parcel post volume as well as the
6 Postal Service's BRPW-DRPW estimate, didn't he?

7 A I don't have his testimony in front of me, but I
8 can -- I have it with me. If you give me just a second,
9 I'll get it.

10 Q Either that or I can furnish you with a copy.

11 A If you have it, let's do that. Whatever is
12 quickest.

13 MR. McKEEVER: Mr. Chairman, may I approach the
14 witness?

15 CHAIRMAN GLEIMAN: Most certainly. Double time.

16 BY MR. McKEEVER:

17 Q Now, again, my question is, in his chart of parcel
18 post volumes which appears in the transcript at Volume 31, I
19 believe it is, page 15262 in any event, he does present both
20 for 1998 the DRPW-only estimate of parcel post volume as
21 well as the Postal Service's BRPW, DRPW estimate; is that
22 correct?

23 A For 1998 only, that's correct. Otherwise, he uses
24 the historic parcel post volumes.

25 Q Are you aware of a DRPW only estimate of volumes

1 for 1999?

2 A I am not.

3 Q Dr. Haldi, which volume estimate do you prefer --
4 the DRPW-only or the BRPW-DRPW estimate?

5 A Well, I'm aware of the controversy that's ongoing
6 and I have read, but, I will admit, hurriedly witness --
7 your witness -- I believe it was Witness Sellick's
8 discussion of this whole issue and his analysis. I haven't
9 had time to take a firm stand on the, I'll call it
10 controversy, I suppose, surrounding parcel post volumes in
11 this case, so what I did later in my testimony, as you'll
12 notice, is I -- when I prepared what I called the bottom-up
13 cost analysis, I used both, and that kind of sets the upper
14 and lower bound for that particular analysis and I didn't
15 rely on either as such.

16 Q Okay. On pages 12 and 13 of your testimony, you
17 criticize Dr. Sappington for stating that the availability
18 of delivery confirmation service increases the value of
19 service of parcel post; is that correct?

20 Were you here when Mr. Olson cross examined Dr.
21 Sappington?

22 A I was not in the room, no, sir.

23 Q Did you read the transcript of that cross?

24 A Yes. Yes. Yes, I did.

25 Q Okay. At transcript Volume 31, page 15508, Mr.

1 Olson gave Dr. Sappington a hypothetical in which homeowners
2 in a suburb had the option of buying firefighting services
3 and they were three houses in a row, two of which bought the
4 option of firefighting services availability and one of
5 which didn't. Do you remember reading that?

6 A I certainly not only remember reading it; I
7 witnessed it once when I was a young lad and I have never
8 forgotten it and I gave it to Mr. Olson.

9 Q I figured.

10 A I watched a house burn to the ground with the fire
11 department sitting there with hoses out and spraying down
12 the roofs of the two adjoining houses to make sure they
13 didn't catch fire, and I asked my father what was going on.
14 He said they didn't pay their -- they didn't buy the option.

15 Q I figured that you had given that hypothetical to
16 Mr. Olson.

17 A It's so vivid, it's still etched in my memory
18 because the house burned literally to the ground. There
19 were just a few concrete support pillars left when it
20 finished burning.

21 Q Well, I would like to change Mr. Olson's
22 hypothetical a little bit. The basic facts I'd like to keep
23 the same. We have the three houses, A, B and C, and houses
24 A and C buy the firefighting option, but house B in the
25 middle doesn't, okay?

1 A Uh-huh.

2 Q Now, let's say house A catches fire and the fire
3 department comes and puts out the fire before it spreads to
4 house B, the house next door. Did house B get any value out
5 of the fact that house A bought the option?

6 A I think they perhaps got a very small amount of
7 value out of it, yes.

8 Q Okay. Does Amazon.com uses delivery confirmation
9 for its parcel post shipments?

10 A I'm not sure, to tell you the truth. It's a
11 question I never asked them.

12 Q Do you know if they use delivery confirmation for
13 their priority mail shipments?

14 A I don't know.

15 Q You didn't ask them?

16 A Well, yes -- wait a minute. I'm sorry. I do
17 believe they manifest their priority mail shipments. And
18 it's free if you manifest in priority mail, and I believe
19 they do that.

20 Q They do use delivery confirmation --

21 A I can't swear to it because I haven't asked them
22 directly, but they're very sophisticated shippers, and given
23 that it's available free if you manifest, they do manifest
24 their priority mail because they're bulk -- essentially bulk
25 shippers of priority mail. I would strongly suspect that

1 they do. I can't swear to it under oath because it would be
2 -- I would be speculating.

3 Q Could you refer to pages 15 and 16 of your
4 testimony, please? There at the bottom of 15, top of 16,
5 you indicate that UPS willingly provides its published rates
6 as a library reference without qualification as to
7 percentage of shipments that actually pay those rates
8 knowing those rates could mislead the Commission.

9 Do you see that?

10 A Yes, sir.

11 Q And on the bottom of 16, you refer to the
12 deliberate result of a conscious corporate policy by UPS and
13 others to suppress and withhold some information.

14 Do you see that?

15 A Yes.

16 Q That's pretty strong language, Dr. Haldi, isn't
17 it?

18 A It's my understanding that the contracts which UPS
19 writes with its customers state that if the information is
20 made public by the customer, the contract can be withdrawn
21 by UPS for their contract rates.

22 I've talked to a number of shippers who have
23 contract rates and they have all said that they're not
24 allowed to discuss by terms of the contract.

25 Q Well, I'm not sure you've answered my question,

1 but you are aware that UPS was asked in discovery for its
2 published rates in this docket; is that correct?

3 A That's correct, yes.

4 Q And they were provided.

5 A I believe -- well, they're available, I believe,
6 on the UPS Website.

7 Q Right.

8 A And I think the reference is simply to the
9 Website. But they're readily available and they are
10 essentially provided, yes.

11 Q Okay.

12 A Yes.

13 Q Are you also aware that the presiding officer has
14 ruled on a number of occasions that UPS has a right not to
15 reveal negotiated rates because the industry considers those
16 rates confidential?

17 A I have seen rulings to that effect, but it's also
18 ruled, I believe, that they are free to submit whatever
19 information they want to, but they don't have to.

20 Q Now, suppose the Postal Service withholds
21 information that is relevant to an issue in this case on the
22 ground that the information is confidential. Should the
23 Commission be careful not to accept too readily the Postal
24 Service's position on that issue given the uncertainty
25 caused by the lack of information?

1 A Excuse me. I know it's late, but could you talk
2 just a little slower?

3 Q Sure. Sure.

4 Suppose the Postal Service withholds information
5 relevant to an issue in the case on the ground that the
6 information is confidential. Should the Commission be
7 careful not to accept too readily the Postal Service's
8 position on that issue -- and I'm quoting here from your
9 page 17, lines 5 to 6 -- given the uncertainty caused by the
10 lack of information?

11 A The -- my understanding is, as a matter of -- more
12 a matter of law than economics here, but my understanding is
13 that the Commission places a much heavier burden on the
14 Postal Service than it does on other intervenors, and if
15 they feel they need the information, I believe they're more
16 likely to require it under seal if the Postal Service
17 considers it proprietary and confidential.

18 Q Are there instances where confidential information
19 is not produced by the Postal Service, though, do you know?

20 A There have been so many motion conflicts in this
21 case, I -- I don't know if they have lost every one, I know
22 they have lost several where they have had to put it under
23 seal. I can't sit here and recall every one of the
24 objections the Postal Service based on confidentiality and
25 how each one was resolved.

1 Q Okay. Let's go to page 18 of you testimony.

2 A Okay.

3 Q In criticizing Mr. Luciani's proposal to
4 distribute city carrier elemental load costs on the basis of
5 weight, you state at lines 17 to 18 on that page that Postal
6 Service Witness Daniel, quote, "did not study the weight
7 cost relationship for any Standard B mail." Do you see
8 that?

9 A Yes.

10 Q And you state on page 20 of your testimony at
11 lines 2 to 4 that neither witness Luciani's testimony nor
12 any other part of the record contains any evidence that
13 would support a change in the way elemental load costs are
14 distributed.

15 Do you see that?

16 A Yes, that's what I said.

17 Q Do you know what a SPR is?

18 A Excuse me?

19 Q Do you know what an SPR is?

20 A I've seen the term.

21 Q Small parcel and roll? Sound familiar?

22 A Yes.

23 Q Does that sound familiar?

24 A Yes. That's right. It's late, I'm sorry, I can't
25 remember all these acronyms.

1 Q That's okay.

2 Are you aware that in his testimony, his study,
3 Postal Service Witness Baron distinguishes small parcels and
4 rolls from parcels by defining small parcels and rolls as
5 pieces that are always less than two pounds and always
6 smaller than a shoe box, whereas a parcel is a piece that
7 weighs two or more pounds or is larger than a shoe box?
8 Does that sound familiar to you at all, that distinction?

9 A I have not read Witness Baron's testimony in this
10 case.

11 Q Okay. So I take it you're not aware that in his
12 latest load time regression results, Mr. Baron found that
13 the marginal load time for small parcels and rolls is about
14 22-1/2 seconds, whereas the marginal load time for parcels
15 is 36.5 seconds or about 14 seconds more for parcels than
16 for small parcels and rolls?

17 A Well, I haven't seen that, but based on the
18 information you just provided me, that would -- you know,
19 you don't know whether it's by weight or by shape because
20 it's both bigger than a shoe box and weighs more than two
21 pounds.

22 Q There is a well established relationship between
23 cube and weight, isn't there, in parcel post?

24 A Well, there is an established relationship. I
25 have seen the curves. I don't know what the variation is

1 around it because you can have very large light-weight
2 packages and very small heavy-weight packages. But yes, I
3 have seen the curves that they use.

4 Q Do you know what the average weight of a parcel
5 post is?

6 A No, I don't offhand.

7 Q Let's assume it's about six pounds. And the
8 average weight of a Standard A parcel, of course, would be
9 less than a pound; is that correct?

10 A That's correct, yes.

11 MR. McKEEVER: Mr. Chairman, I would like to
12 furnish the witness and his counsel with Attachment K to
13 Postal Service Witness Eggleston's testimony, USPS-T-26 in
14 this docket.

15 CHAIRMAN GLEIMAN: Most certainly.

16 BY MR. McKEEVER:

17 Q Now, Dr. Haldi, as I mentioned, I have just given
18 you and your counsel a copy of Attachment K to USPS-T-26,
19 and that's entitled Summary of Cube-Weight Relationship
20 Results. It consists of three pages, the third page of
21 which is a graph.

22 Now, if you'd take a look at that data, for
23 intra-BMC parcels, the cube of a two-pound piece is 0.2194
24 cubic feet per piece; is that correct?

25 A That's the estimated cube, yes.

1 Q Right. And a cube of a six-pound piece for
2 intra-BMC is estimated at 0.67661.

3 A Yes, that's what it says.

4 Q So the six-pound piece on average is about 3-1/2
5 times bigger in cube than a two-pound piece according to
6 those results?

7 A I think that math is about right, yes.

8 Q And a Standard A piece, I guess we agreed by
9 definition, always weighs less than two pounds because it
10 has to weigh less than a pound, is that right, to be
11 Standard A?

12 A It has to weigh less than 16 ounces, yes.

13 Q Okay.

14 MR. McKEEVER: That's all we have, Mr. Chairman.

15 CHAIRMAN GLEIMAN: Follow-up?

16 Would you like -- I don't believe there are any
17 questions from the bench. Would you like some time with
18 your witness to prepare for redirect?

19 MR. OLSON: Not much.

20 CHAIRMAN GLEIMAN: Okay. Well, then, we will just
21 sit tight for a moment.

22 [Pause.]

23 MR. OLSON: We would like to wish the Commission
24 good night.

25 [Witness excused.]

1 CHAIRMAN GLEIMAN: You finally got your points,
2 Mr. Olson.

3 [Laughter.]

4 CHAIRMAN GLEIMAN: Better late than never, but
5 better not any later, I guess.

6 That concludes this evening's hearings. We'll
7 convene tomorrow morning, the 30th, at 9:30 and we will
8 receive testimony from Witnesses -- and I'm reading them in
9 the order that we're going to take them -- Witness Harding
10 for whom there is no cross examination, at least that we're
11 aware of at this point; Witness Haldi; Clifton; Miller;
12 Stacey; Gordon; and Degan.

13 I thank you all for your help today, and you all
14 have a good evening, or what's left of it in any event.

15 [Whereupon, at 8:30 p.m., the hearing recessed, to
16 reconvene the following day, Wednesday, August 30, 2000, at
17 9:30 a.m.]

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